Executive Summary

Problem Statement:

PepsiCo faces a critical challenge in balancing its product diversification strategy with declining organic growth in core categories, particularly carbonated soft drinks, in mature health-conscious markets. Despite strategic acquisitions and innovations, the company's growth in revenues and earnings remains stagnant, especially as it contends with geopolitical, economic, and competitive pressures across its global markets.

Analysis:

PepsiCo is in a complex environment shaped by geopolitical tensions, economic slowdowns, and shifting consumer preferences towards healthier products. While international markets present growth opportunities, challenges such as rising operational costs and geopolitical conflicts in Europe are hurting profitability. At the same time, the company's value-priced snacks may benefit from recessionary trends, though it must address the growing consumer demand for healthier snacks and beverages. Internally, PepsiCo's key strengths include its strong global distribution network, brand loyalty, and innovation in healthier products. However, its high debt burden from acquisitions and reliance on declining carbonated soft drink sales in mature markets, particularly North America and Europe, limit its flexibility. Financially, PepsiCo's stable profit margins and strong return on equity reflect its operational efficiency, but its high debt-to-equity ratio constrains long-term growth. While the company's product diversification offers resilience, rising taxes on sugary products and intense competitive pressures in beverages, especially from Coca Cola, demand continued innovation and strategic investment. PepsiCo's future growth will depend on balancing its traditional strengths with the expansion of health-focused products and further capitalizing on emerging markets.

Alternatives:

PepsiCo has four strategic alternatives to address its challenges:

i. Focus on expanding healthier product lines to capture shifting consumer preferences
ii. Leverage AI and economies of scale to reduce operational costs and mitigate its debt burden
iii. Invest in emerging markets where demand for traditional carbonated soft drinks remains strong
iv. Restructure operations in regions affected by geopolitical tensions to ensure supply chain resilience

Recommendation:

The recommended course of action is to aggressively expand PepsiCo's healthier product lines in mature markets while maintaining its existing portfolio in fast-growing markets as cash cows. This dual approach allows PepsiCo to leverage its strengths in brand loyalty, distribution, and innovation while addressing the decline in carbonated soft drink sales and capitalizing on the growing health-conscious trends. Revenue generated from traditional product lines in emerging markets will support investments in health-focused innovations.

Implementation:

The implementation plan involves:

- Prioritizing the expansion of healthier products over the next 12 months in North America and Europe
- Utilizing AI-driven efficiencies to streamline operations and reduce costs
- Maintaining strong traditional product lines in emerging markets to generate cash flow for future investments

This approach balances short-term profitability with long-term growth in healthier product segments.

Appendix I

In light of the current situation and market position of PepsiCo and its brands, please find summarized below the imperative problems faced by the company:

1. *Unproven diversification strategy enhanced by slow organic growth:* Despite the company's efforts to diversify its product portfolio through multiple acquisitions and continued product innovations, PepsiCo has still not fully demonstrated that its ongoing diversification strategy can significantly boost shareholder value. Recent acquisitions may have provided slight advancement, but organic growth in key categories (namely soft drinks and snacks) has remained stagnant. This issue leads industry analysts to suggest potential additional strategic adjustments to possibly restore previous growth rates in revenues and earnings, as the current approach has not entirely delivered in expected financial outcomes (Gamble, 2023).
2. *International expansion presenting challenges and opportunities:* Some of PepsiCo's international markets have presented geopolitical and economic challenges for the company. For example, European sales have been severely affected by external factors such as slowing market growth and the war between Russia and Ukraine, leading to operating losses. Nevertheless, international markets may also present some untapped opportunities for the company, such as emerging and growing markets in developing countries like China and Brazil. These opportunities can become potential weaknesses if not harnessed by PepsiCo, with possible market share loss if untapped (Gamble, 2023).
3. *Rising costs leading to smaller margins:* Related to challenges in international expansions, costs for PepsiCo have increased not only due to external factors and consumer preferences, but also due to an increase in commodity prices within certain regions, notably Asia, Africa, and the Middle East as well as the Asia Pacific, Australia, New Zealand, and China regions. This has resulted in shrinking margins in some international markets, where rising operational costs slowly become a growing concern that must be addressed and hedged upon (Gamble, 2023).
4. *Competitive pressures faced by diversified PepsiCo in beverage industry:* While PepsiCo has successfully diversified into multiple markets, its founding industry, the beverage sector, remains slowing in growth and thus fiercely competitive due to shifting consumer preferences, where the company faces major competition from Coca Cola holding a significant market share of 46% in an industry it focuses on exclusively (as opposed to PepsiCo's 25% market share and strategy of diversifying into other industries as well). This highly competitive environment in the nonalcoholic beverage market hinders PepsiCo's ability to capture a larger share of the market, making it challenging for the company to expand its own core beverage business which is responsible for a great deal of PepsiCo's profitability and free cash flow (Gamble, 2023).

PepsiCo's current situation is shaped by multiple interconnected challenges. While the company has made strategic acquisitions, it has yet to prove this can deliver substantial growth in shareholder value. At the same time, PepsiCo faces stiff competition in its core beverage market, rising operational costs, and geopolitical challenges that impact its international expansion efforts. These combined factors suggest that PepsiCo must rethink parts of its strategy to address the stagnating growth in key categories, capitalize on international opportunities, and enhance profitability to maintain long-term shareholder value.

Appendix II

The analysis in this appendix provides an in-depth overview of key external factors affecting PepsiCo's macro-business environment, using the PESTLE framework. Each identified trend, across Political, Economic, Sociocultural, Technological, Ecological, and Legal areas, has been assessed for its probability of occurrence and its potential impact on the company. The analysis highlights both opportunities and threats and offers strategic insights for future challenges and opportunities.

	Probability of Occurrence *(High, Medium, Low)*	*Categorization of Threat or Opportunity; & Probability of Impact Magnitude on Firm* *(High, Medium, Low)*	*Prioritization of Opportunities & Threats*
Political Trend: Geopolitical conflicts, sanctions, and restrictions → ongoing geopolitical conflicts, such as the Russia-Ukraine war, have already disrupted PepsiCo's European operations, mostly in Russia and Ukraine (PepsiCo Inc, 2024). Sanctions have severely limited access to these markets (S&P Global, 2024), contributing to a decline in snack volume sales in 2022 (Gamble, 2024). Beyond Europe, rising tensions between China and Western nations pose additional risks, potentially leading to future trade sanctions, high tariffs, and supply chain disruptions. Upcoming elections in key regions, such as the US in 2024, could further heighten geopolitical uncertainty as shifting foreign policies may escalate tensions or lead to additional restrictions. The current global trend towards protectionism is likely to persist (Jones, 2023).	Probability is **high** → The ongoing Russia-Ukraine war shows no resolution in near sight, and further escalations and restrictions are not out of the picture. Upcoming elections in multiple key countries may introduce further protectionism in various markets that PepsiCo is in, with possible retaliations as well (Jones, 2023). Ongoing global instability due to tensions and trade wars indicates a continued high likelihood of further geopolitical disruptions (Goldberg & Reed, 2023).	This trend is a **threat** with a **high** magnitude → The continued geopolitical conflicts and potential for further trade restrictions will likely keep disrupting PepsiCo's operations in key regions. Sanctions on Russia have already led to significant declines in European sales (PepsiCo, 2023), and further escalations in US-China relations could severely affect the company's supply chain and access to the Chinese market, which is one of the highest-growing markets for the company (PepsiCo, 2023). The threat is compounded by the company's reliance on global operations, which makes it vulnerable to international policy changes.	**Priority 1 Threat**
Economic Trend: Recessionary pressures in major economies → Recessions can lead to reduced consumer spending, especially in major economies like the US, Europe, and China, impacting demand for premium products. However, PepsiCo may benefit from the "lipstick effect" (O'Driscoll, 2024), where consumers opt for cheaper alternatives and indulgences during economic downturns. The company's well-priced snacks and beverages could see increased demand during recessions with consumers opting for affordable treats. In 2022, for example, despite economic uncertainty, PepsiCo achieved growth in its snack food business (PepsiCo, 2023).	Probability is **medium to high** → Several economies around the world, including the US, and Europe, and growing markets such as Brazil, are experiencing slow growth or are at risk of entering recessions or recessive economic states due to higher inflation, rising interest rates in some countries, and ongoing supply chain issues. The IMF and World Bank have warned of a potential global slowdown in 2024, thus, despite small recent recoveries in certain	This economic trend may be both a **threat as well as an opportunity** with **medium to high** magnitude → On one hand, recessions, and slow economic growth could reduce overall consumer spending on non-essential items, leading to lower sales volumes in premium product categories. Nevertheless, if strategically placed, PepsiCo's value-priced snacks could benefit from a shift in consumer preferences towards affordable, accessible, and value products during recessions.	**Priority 2 Opportunity & Threat**

	markets, the threat of recessions is still looming in multiple regions where PepsiCo is located (World Bank Group, 2024; UNCTAD, 2024).		
Sociocultural Trend: Rising demand for healthier snacks and beverages → The increasing popularity of healthier snacking options is driven by rising consumer awareness around nutrition, a preference for low-calorie and high-protein snacks, and the need for convenience due to busy lifestyles. This includes protein-rich snacks replacing full meals, especially in the savory segment (Technavio, 2024). The global healthy snack market was valued at $85.6bn in 2021 and is projected to grow at a CAGR of 6.6% until 2030 (Conway, 2023). Healthy snacks focus on lower fat, sugar, and calorie content, with the potential functional inclusion of beneficial ingredients like fiber, vitamins, and minerals (Market.US, 2024).	Probability is **high** → Growing consumer demand for healthy alternatives to traditional snacks and the projection that the healthy snack market will reach significant growth over the next decade support the likelihood of the trend, especially among younger consumers (Grimmelt et al., 2022); Conway 2023). Busy consumer lifestyles and the need for convenient, nutritious snack options that also meet health-conscious preferences continue to be major drivers (Technavio, 2024).	The trend is an **opportunity** for PepsiCo with a **high** probable impact → The company is already well positioned within the healthy snack segment with products like Bare Foods, Quaker, and Bubly, which cater to the demand for convenient healthier options (PepsiCo, 2023). Nevertheless, consumers still feel as if the range of products on shelves is limited and lacks desired features (Grimmelt et al., 2022), providing an opportunity for a company as well-funded as PepsiCo to make major moves within the segment and capture market share in order to expand its diversified presence globally.	**Priority 1 Opportunity**
Technological Trend: Use of AI in the food and beverage supply chain → Artificial Intelligence is increasingly being integrated into supply chain management in the food and beverage industry, with many companies adopting software to achieve operating efficiencies (Thompson, 1999). PepsiCo has already been adopting AI to improve demand forecasting, optimize inventory management, and enhance production efficiency for years. For instance, the company has used AI to predict consumer demand patterns and ensure the right products become available at the right time, and in distribution centers to automate warehouse operations, reduce lead times and operational costs (Marr, 2019). As this trend continues to rapidly evolve in current times, companies are and will invest heavily in technology to optimize end-to-end supply chains and reap the benefits of ever-evolving software.	Probability is **high** → AI-driven supply chain solutions are becoming the norm across industries, and the food and beverage sector is no exception. This sector benefits from multiple fronts such as product traceability for food safety, optimized production processes, effective quality control, and sustainability (Dombroski, 2019). Amar et al. (2022) reports that AI can reduce forecasting errors by up to 50% and lower lost sales by 65%. As these tools get improved and become more widely available and personalized for large companies, more will decide to integrate solutions to gain a competitive edge.	This trend is an **opportunity** with a **medium** impact magnitude for PepsiCo → By leveraging AI, PepsiCo can improve its supply chain efficiency to reduce costs and waste, increase agility and resilience, and better manage inventory across its global operations (INCIT, 2023). This can lead to faster turnaround times and more responsive production systems, helping the company meet consumer demand more effectively and improving customer-supplier relationships. Additionally, AI tools may help PepsiCo adapt and hedge against fluctuations in the global supply chain caused by disruptions like pandemics or geopolitical tensions.	**Priority 2 Opportunity**
Ecological Trend: Consumer preferences for environmentally conscious brands →	This trend's probability of occurrence is **high** →	This trend is an **opportunity** with a **medium** magnitude of impact	**Priority 2 Opportunity**

Modern consumers are increasingly focused on sustainability, demanding benefits such as eco-friendly packaging, carbon-neutral packaging, and sourcing transparency, to the intensity of overlooking premium pricing even amid inflationary concerns solely for the advantage of increased brand sustainability (PwC, 2024). PepsiCo's Pep+ initiative, which aims for net-zero emissions by 2040 and 50% reductions in virgin plastic use by 2030, addresses this shift successfully in the company's strategy (PepsiCo, 2023), which is, however, in high competition with competitors' own sustainability efforts. Thus, the success of these initiatives in setting PepsiCo apart depends on the company's ability to innovate and reduce environmental footprints faster and more effectively than consumers in order to capture the market share of upcoming sustainability-focused consumers (Reichheld et al., 2023).	Sustainability is now becoming a core expectation for consumers globally, particularly Gen Z and millennials, whose purchasing power will surpass that of older generations by 2030 (Reichheld et al., 2023). The market for conscious products is expected to grow rapidly and significantly (Brahic et al., 2021), with major companies already pledging and following through with their environmental goals.	→ PepsiCo has already made significant progress with its Pep+ initiatives (PepsiCo, 2023), but the market rewards those companies and brands that lead the charge in sustainability; thus, the company must not only pledge for its initiatives, but show completion, if not surpassing of its goals. The ability to differentiate itself as well on socio-ecological factors will positively impact long-term brand loyalty and profitability for the company (Moisescu & Gică, 2020).	
<u>Legal Trend:</u> Taxes on unhealthy foods and beverages → Governments worldwide are adopting health taxes on foods and beverages high in sugar, salt, and fat to combat rising rates of obesity, diabetes, and cardiovascular disease for the general population's well-being. Countries like Mexico, the UK, and South Africa have already implemented 'sugar taxes', and similar policies are being discussed or expanded in many other regions. The WHO reports that over 85 countries are now using health taxes as part of a broader strategy to protect public health (World Health Organization, 2023). In the US, recent discussions on expanding sugar taxes are gaining momentum, particularly at the city level (Kaplan et al., 2024). PepsiCo, with its strong presence in these markets, is directly affected by these policies, as many of its core products fall under the category of unhealthy foods subject to taxation (PepsiCo, 2023; PepsiCo Inc, 2024).	This trend's probability is **high** → The WHO has noted a significant increase in the adoption of health taxes, and more governments are recognizing the link between health policies and the economic burden of non-communicable diseases (World Health Organization, 2023). As the obesity epidemic grows, especially in developed and developing countries, taxes on unhealthy foods are seen as a potentially effective way to reduce consumption and generate revenue for public health programs (World Health Organization, 2023).	This trend is a **threat** with a **medium** to **high** impact magnitude → Taxes on sugary beverages and unhealthy snacks could directly impact PepsiCo's sales, especially in markets where these products are staples. Studies have shown that these taxes lead to reduced consumption of taxed products, such as sugary sodas and unhealthy snacks. In Mexico, for example, sugary beverage sales dropped by 7.6% following the implementation of a sugar tax (Colchero et al., 2017). While PepsiCo has diversified into healthier product lines, its traditional offerings, such as Mountain Dew and Lay’s, are highly susceptible to these taxes. The impact could range from reduced sales volumes to increased operational costs associated with reformulating products to avoid taxes (PepsiCo, 2023).	**Priority 2 Threat**

Appendix III

Before diving into the detailed analysis of PepsiCo's competitive positioning in the beverage and food industry, it is essential to assess the Porter's Five Forces influencing this industry. This appendix outlines factors impacting the competitive forces acting on PepsiCo composed of rivalry among competitors, bargaining power of suppliers and of buyers, and the threats of new entrants and of substitutes. Each factor is rated for its relative strength and supported by relevant evidence. The subsequent analysis also prioritizes factors according to their potential impact on PepsiCo's positioning within the industry.

		Strength rating (1 [weak] to 5 [strong])	*Evidence justification of factor strength rating*	*Prioritization of factors and forces*
Rivalry among competitors	*Factor 1: Highly competitive market* → PepsiCo operates in a highly competitive market, where many of the other beverage and food industry players, like PepsiCo, operate in multiple regions with multiple distribution channels. In its core market within the global beverage industry, competition is intense. According to the Beverage Industry Magazine (2023), PepsiCo controls 24.7% of the US soft drink market, with Coca Cola holding 46.3% of the share, and in many other markets, Coca Cola remains PepsiCo's biggest competitors (PepsiCo Inc, 2024). Globally, the company is placed fourth in leading beverage companies by sales, behind Anheuser-Busch InBev, Nestlé, and Coca Cola (Beverage Industry Magazine, 2023). When it comes to convenient food products, PepsiCo holds significant leadership positions worldwide (PepsiCo Inc, 2024). Additionally, PepsiCo faces competition from private labels, micro-brands, and e-commerce companies, requiring continuous innovation and marketing to maintain its position.	5	The intense competition between Coca Cola, PepsiCo, and other industry competitors is not just in its product offerings, but also extends to product innovation, pricing, marketing, R&D, among many other factors that are taken into account during production, promotion, and placement (PepsiCo Inc, 2024). Coca Cola's dominance in the industry forces PepsiCo to compete aggressively for market share, as showcased over the years of constant battling for market share (Olya, 2021). This competition creates a very high degree of rivalry, in accordance with Porter (1980) who states that competitors of similar size, resources, and offerings tend to intensify rivalry, leading to high competition, characteristics that appear very pronounced in the industry that PepsiCo is in.	**Priority 1 Threat**
	Factor 2: Low switching costs for consumers → Consumers in the beverage and convenient food industry face minimal financial and effort-related barriers when deciding to switch between competitors' products. Since competition in this industry revolves mainly around factors like price, taste, and brand recognition (PepsiCo Inc, 2024), consumers can quickly and easily shift preferences, especially in highly commoditized categories like carbonated beverages. Moreover, increased focus on health-conscious options and sustainability adds pressure on PepsiCo to innovate to retain and acquire customer loyalty.	4	According to Porter (1980), industries with low consumer switching costs tend to have higher rivalry since companies must continually invest in marketing, innovation, and product differentiation to prevent customer churn. The ease of switching from one brand to another requires PepsiCo to focus on differentiation to meet and surpass evolving consumer preferences and effective promotional strategies (Thompson, 1999). Even factors like packaging, product variety, and digital marketing play crucial roles in retention (PepsiCo Inc, 2024), heightening the rivalry in this industry.	**Priority 3 Threat**
	Overall strength of force:	**= 4.5**		

Bargaining power of suppliers	*<u>Factor 1: Supplier diversity</u>* → PepsiCo sources a variety of key ingredients and commodities (e.g. corn, sugar, potatoes) and packaging materials (e.g. plastic, aluminum, glass) from multiple suppliers across different geographies (PepsiCo Inc, 2024). This diversification reduces dependency on any single supplier and mitigates potential supply chain risks, especially as PepsiCo hedges financial risks ahead of time due to open market price fluctuations as well (PepsiCo Inc, 2024). This diversity also mitigates the risk of supply chain disruptions due to geopolitical issues or natural disasters and allows PepsiCo to easily switch between suppliers, if necessary, without major operational impact.	2	The availability of multiple suppliers and sourcing of widely available commodities weakens the bargaining power of individual suppliers (Thompson, 1999). As the company has access to various suppliers for essential raw materials, no single supplier can dominate pricing or terms. According to Porter (1980), a diversified supply base reduces the risk of any one supplier holding substantial negotiating power, giving companies like PepsiCo an advantage in securing favorable terms.	**Priority 3 Opportunity**
	<u>Factors 2: Specialized ingredient sourcing</u> → While PepsiCo sources many common raw materials from a diverse network, it also relies on specialized suppliers for key ingredients like flavorings, artificial sweeteners (e.g., aspartame for diet sodas), and packaging technology (PepsiCo, 2023). For instance, the company depends on patented flavor formulations that are supplied by only a few companies. Moreover, the company's sustainability initiatives require specified sourcing of certain ingredients such as grower-sourced crops, which limits its supplier pool in order to achieve strategic goals (PepsiCo Inc, 2024).	3	The reliance on a few suppliers for specialized ingredients increases supplier bargaining power because PepsiCo cannot easily switch to other sources without disrupting its product formulations or quality. Specialized inputs create supplier dependence, giving these suppliers more leverage in negotiations. Porter (1980) and Thompson (1999) explain that when suppliers provide crucial or unique products, their bargaining power is strengthened, as switching costs become higher for the buyer.	**Priority 7 Threat**
	Overall strength of force:	**= 2.5**		
Bargaining power of buyers	*<u>Factor 1: High availability of substitutes</u>* → The beverage and convenience foods market offer a wide variety of similar and differentiated alternatives, including private label products, health-conscious options, and large and well-known competitors' products such as Coca Cola and Nestlé's offerings (PepsiCo Inc, 2024). Consumers have numerous choices in categories like carbonated beverages and snacks, where healthier or cheaper alternatives are readily available, oftentimes in the same marketplace, making it easier and convenient for consumers to switch between brands if prompted.	5	The high availability of substitutes empowers consumers to easily shift away from PepsiCo's offerings if they find better value or more health-conscious alternatives that fit their evolving preferences. According to Porter (1980), when substitutes are readily available and competitively priced, the bargaining power of buyers increases, forcing companies to adapt or risk losing market share.	**Priority 2 Threat**
	<u>Factor 2: Buyers are well-informed</u> → Consumers today have easy access to detailed information about snacks and beverages, including ingredients, nutritional content, and pricing, due to advancements in technology and regulatory requirements that are constantly evolving to ensure further transparency to consumers (PepsiCo Inc, 2024). Labeling laws and platforms like e-	4	With readily available information and transparency powered by technology, buyers have greater control over their purchase decisions. If buyers are well-informed on industry members' offerings, buyer bargaining power becomes a stronger force (Thompson, 1999). Porter (1980) highlights that when buyers are informed, they have more leverage in	**Priority 5 Threat**

	commerce websites give consumers transparency, helping them make informed decisions. Regulatory requirements, like those outlined by the FDA and health guidelines, further ensure that buyers are well-informed about product choices (PepsiCo Inc, 2024).		negotiations, especially when it comes to choosing products that align with their preferences for health, sustainability, and pricing.	
	Overall strength of force:	**= 4.5**		
Threat of new entrants	*Factor 1: Hard to achieve economies of scale* → PepsiCo's vast scale gives it a competitive advantage over new entrants. Its extensive distribution network, global production facilities, and well-established supply chains lower its per-unit costs significantly. In 2023, PepsiCo's global production capacity allowed it to distribute over 1.4 billion products daily across more than 200 countries (PepsiCo Inc, 2024). The wide reach that the company has on multiple countries allows it to enjoy cost advantages gained by such a high level of production as one of the largest market players in the industry.	2	The economies of scale that PepsiCo enjoys create a significant barrier to entry. New and smaller entrants would struggle to match the company production efficiencies and cost advantages, making it difficult to compete on price or reach comparable distribution levels. Porter (1980) asserts that large-scale operations deter new entrants because they cannot easily achieve the cost advantages of established companies. The lack of economies of scale by smaller new entrants might also pose a problem for them in further investing significantly into R&D, marketing, distribution, and regulatory compliance required to become a player in such a highly competitive industry.	**Priority 2 Opportunity**
	Factors 2: High degree of historical brand loyalty → PepsiCo has built a strong global brand over decades, with products like Pepsi, Lay's, and Mountain Dew having strong brand recognition and consumer loyalty. In 2022, brand loyalty for the Pepsi soda, PepsiCo's signature product, sat at around 84% (Kunst, 2023). PepsiCo invests billions annually in advertising to maintain and grow its brand presence (PepsiCo, 2023) and, like its biggest competitors, has been a well-established brand for multiple decades, a feat that would be hard to replicate by new entrants into this industry.	1	High brand loyalty among consumers creates an additional barrier to entry for new competitors, as it's difficult to persuade loyal customers to switch to new or unknown brands. Porter (1980) highlights that strong brands create significant entry barriers because customers tend to stick with familiar and trusted products, reducing the likelihood of new entrants successfully penetrating the market.	**Priority 1 Opportunity**
	Overall strength of force:	**= 1.5**		
Threat of substitutes	*Factor 1: Emergence of healthier alternatives amongst sociocultural trends* → Consumer trends toward healthier lifestyles have led to the rise of plant-based beverages, water alternatives, and non-sugary drinks (Grimmelt et al., 2022). PepsiCo's core soft drink business faces increasing competition from these alternatives, with the company attempting to enter the healthier-for-you industry as well to avoid stronger negative impact brought about by this upcoming threat.	4	The growing popularity of healthier drink alternatives poses a significant threat to PepsiCo's traditional soft drinks. As consumers become more health-conscious, they are increasingly opting for non-carbonated, low-sugar drinks, thereby eroding PepsiCo's market share in core product lines (Grimmelt et al., 2022). With substitutes providing better sought-after features, customer having low costs to switch to substitutes, and growing substitute product sales, this factor affects PepsiCo's traditional businesses adversely, with stronger competitive pressures (Thompson, 1999).	**Priority 4 Threat**

	Factors 2: Affordable private label products → Retailers like Walmart, Costco, Aldi, Kroger, among others, have expanded their private label product offerings (Foy, 2023), which more often than not come at lower prices than PepsiCo's branded products and poses a large share of competition for market share (PepsiCo Inc, 2024). In the food segment, private label dollar sales growth in the US increased by 10%, whereas beverage sales grew by 8.9% (Ozbun, 2024). According to PLMA (2024), 55% of consumers have increased their private label purchases over the past year, with motivating factors being better cost, good value, and an increase in quality and taste perception.	3	Private label products are a moderate threat because they offer consumers cheaper alternatives to PepsiCo's branded snacks and beverages. Nevertheless, while these products are typically better priced, they often lack the brand appeal and perceived quality of PepsiCo's products, whose brand enjoys the benefit of brand loyalty, as mentioned previously. However, in price-sensitive segments, private label options can erode PepsiCo's market share. Porter (1980) notes that the threat of substitutes is higher when alternatives offer a similar function at a lower price, particularly in commoditized markets.	**Priority 6 Threat**
	Overall strength of force:	**= 3.5**		
	Overall industry attractiveness (factors overall strength of all five forces):	**= 3.3**		

Appendix IV

This appendix provides a succinct financial analysis of PepsiCo, focusing on key profitability, liquidity, leverage, and activity ratios over the past years and interpreting trends in financial performance while also compared to PepsiCo's largest competitor, Coca Cola, where relevant. The appendix ties the fluctuations in PepsiCo's financial ratios to major strategic decisions and market conditions, such as acquisitions, product innovation, and global challenges like the COVID-19 pandemic, offering insights into how the company has navigated these factors to drive long-term growth and maintain operational efficiency. All ratios have been sourced from Mergent's Company Report for PepsiCo Inc (PEP) as well as for Coca Cola Co (KO) (FTSE Russell, 2024a; FTSE Russell, 2024b).

1. *Profitability analysis:* The profitability of PepsiCo over the past five years has been influenced by various key events tied to its operational and strategic decisions. The operating margin declined from 16% in 2019 to 14.3% in 2021, rebounding to 15% by 2023, corresponding with the challenges PepsiCo faced in supply chain disruptions and inflationary pressures during the COVID-19 pandemic. In response, the company adjusted its strategies, focusing on product innovation, operational efficiency, new healthier snack options, and strategic acquisitions to offset shrinking markets and seize upcoming opportunities and trends, reflected in the recovery by 2023, revenue growth, and stabilized margins. The net profit margin follows a similar trend, increasing from a low of 10.7% to 11.5% in 2023, which can also be linked to the company's strategic capital expenditures and cost-saving measures, particularly in its global distribution and operational excellence initiatives. Coca Cola's, PepsiCo's biggest competitor, higher net profit margin of 26% indicates a different in product mix and pricing power, but PepsiCo's diversification into snacks and an expanded beverage portfolio has provided a more balanced growth trajectory over the period. The return on equity has consistently been high, rising from 51.6% in 2022 to 58.3% in 2023. PepsiCo's aggressive share repurchase and dividend policies, alongside its careful management of capital expenditures, have boosted shareholder returns and displayed the company's strong post-pandemic recovery, outperforming the S&P 500 Index by 25% in 2022 (Gamble, 2023). This suggests that PepsiCo's existing strategy of combining innovation and strategic acquisitions is resonating well with investors, despite the global economic challenges. The company's EBITDA margin has seen a slight decline from 19.6% in 2019 to 18.3% in 2023, possibly reflecting rising costs associated with commodity price increases, especially in 2022 when operating income in its Asia-Pacific region dropped by 20% (Gamble, 2023). Nonetheless, PepsiCo's continued focus on expanding higher-margin products (like healthy snacks and non-carbonated beverages) should help stabilize EBITDA margins in the future.
2. *Liquidity analysis:* PepsiCo's current ratio has remained below 1 for most of the last five years, reflecting tight liquidity management. The decline in 2022 and 2023 liquidity could be tied to the company's significant capital expenditures on acquisitions and global supply chain improvements, as well as aggressive stock buybacks and dividend payouts. While that may appear risky to investors, it can also be seen as a strategic move to optimize cash flows and return value to shareholders over time, especially following strong during and post-pandemic performance. As for the company's quick ratio which remained low at 0.6 for the past three years, PepsiCo displays limited immediate liquidity, which can be a result of constant reinvestment of cash flows into operations and acquisitions. Nevertheless, PepsiCo still remains stable despite lower liquidity due to consistent cash flows from a diverse product portfolio.
3. *Leverage analysis:* The leverage experienced by PepsiCo has been notably high, with a debt-to-equity ratio peaking in 2020 at 330.7%. This can be attributed to the company's acquisitions of Pepsi Bottling Group, Rockstar Energy, and other strategic deals, which added significant debt to

its balance sheet. However, as PepsiCo integrated these acquisitions and improved operational efficiencies, its debt-to-equity ratio gradually decreased to 244.9% in 2023. Similarly, the debt-to-asset ratio of the company was high in 2020 at 47.1% likely due to pandemic-driven financial pressures, but it has since declined to 43.9% as PepsiCo began deleveraging. The company's solid financial performance, bolstered by its diversified revenue streams and global expansion, has allowed it to manage this high leverage effectively. PepsiCo's interest coverage ratio surged from 2.9 in 2022 to 8.1 in 2023, indicating that the company now generates ample operating income to cover its interest expenses. This improvement is directly linked to PepsiCo's strong post-pandemic recovery, operational efficiencies, and strategic moves.

4. *Activity analysis:* PepsiCo's operational efficiency, reflected in its inventory turnover ratio of 7.8 in 2023 aligns with the company's global supply chain optimization efforts. Despite a decrease from a 2019 higher inventory turnover ratio of 9, PepsiCo has worked to streamline its supply chain, allowing for a ever-more efficient inventory cycle post-pandemic. Additionally, the introduction of new products, especially healthier snack options and new product lines available from acquisitions, likely contributed to fluctuations over the years in inventory turnover as the company adjusted to shifting consumer preferences. Moreover, the asset turnover ratio of 0.9 over the past five years reflects PepsiCo's ability to consistently generate revenue from its asset base. The stability of this ratio, even during challenging periods like the pandemic, underscores PepsiCo's diversified portfolio and its ability to adapt to changing market conditions. This consistent performance, compared to competitor Coca Cola's lower asset turnover ratio of 0.5, highlights PepsiCo's more effective use of its asset base to generate revenue, driven by its snacks and beverages divisions.

Appendix V

This Appendix presents a comprehensive internal environment analysis of PepsiCo, highlighting the company's key strengths and weaknesses. This analysis employs the resource-based View (RBV) framework to evaluate the strategic significance of various resources that contribute to PepsiCo's competitive positioning. Each strength and weakness are assessed across four critical dimensions: value, rarity, inimitability, and organizational capability to exploit (VRIO) (Wurthmann, 2020). By prioritizing these factors, the analysis provides insights into how PepsiCo can leverage its strengths while addressing its weaknesses to enhance long-term sustainability and growth.

		Valuable ?	*Rare ?*	*Inimitable ?*	*Company organized to exploit ?*	*Justifications for ratings in columns 2 to 5*	*Priority level*
Strengths	PepsiCo has consistently demonstrated a strong ability to innovate, especially in response to evolving consumer preferences, which has been critical to maintaining a competitive edge. Over the past decade, the company has expanded beyond its core offerings of beverages and snacks by introducing healthier products such as CytoSport and Bubly while leveraging acquisitions like Quaker Oats and Gatorade to strengthen its portfolio (Gamble, 2024). More recently, PepsiCo announced it is purchasing tortilla chip maker Siete Foods to expand its offerings of healthier options (Lucas, 2024). This diversification allows PepsiCo to mitigate risks associated with market changes, particularly the declining demand for sugary beverages in health-conscious markets (PepsiCo Inc, 2024). The company's investments in product innovation and sustainability through the Pep+ initiative also highlights PepsiCo's commitment to aligning its portfolio with global health and wellness trends (PepsiCo Inc, 2024).	Yes	Yes	No	Yes	PepsiCo's ability to innovate in response to consumer demand, particularly for healthier products, is a key driver for revenue sustainability and growth. The development of new products and acquisitions show that the company's innovations are directly tied to value creation and a significant part of its competitive advantage (Gamble, 2024). While other companies also engage in product innovation, PepsiCo innovates across both snacks and beverages and leverages its scale and resources in a unique and aggressive manner. Few companies have the capability to simultaneously develop such a broad and diverse portfolio (PepsiCo Inc, 2024). Competitors like Coca Cola may be able to replicate PepsiCo's combination of a diversified portfolio and product innovation due to equally large economies of scale and resources – however, very few players in the industry would have that ability. PepsiCo is organized to support this innovation and expansions. The company has historically invested heavily in R&D, marketing, and acquisitions that fuel its innovation pipeline, while also streamlining distribution to bring new products to market efficiently (Gamble, 2024).	**Priority 1 Strength**
	PepsiCo's global brand portfolio, which includes iconic brands such as Pepsi,	Yes	Yes	No	Yes	PepsiCo's high brand recognition and loyalty are key assets that contributes to	**Priority 3 Strength**

	Gatorade, Doritos, and Quaker Oats, has cultivated strong consumer loyalty over the years. These brands have become household names across a wide range of consumer demographics, driven by PepsiCo's long-standing investments in advertising, sponsorships (e.g., the NFL partnership for Gatorade and Pepsi (Young, 2022)), and brand-building initiatives (Gamble, 2024). The company's strategy of engaging with consumers across multiple platforms, including digital and social media, has reinforced its position as a trusted and recognized brand globally (Koetsier, 2023). Furthermore, brand loyalty is continuously strengthened by PepsiCo's ability to introduce new products while retaining customer engagement with its established offerings, creating a dynamic yet familiar product landscape (PepsiCo Inc, 2024).					sustainability of success and repeat business for revenue growth, which is a critical advantage in a highly competitive industry. Few companies enjoy the level of brand recognition and loyalty that PepsiCo has built over decades, making it a rare asset to possess. While competitors like Coca Cola also have strong brands, PepsiCo's presence across both the beverage and snack categories gives it a distinct advantage in terms of consumer reach and loyalty. Thus, although it is difficult to replicate the trust and familiarity that consumers have with PepsiCo's brands, other companies with large marketing budgets (such as Coca Cola) could build similar brand equity over time (PepsiCo Inc, 2024). However, PepsiCo is highly organized to leverage its brand equity through global marketing efforts, strategic partnerships (e.g., sports sponsorships), and its efficient distribution network, ensuring that its products reach customers effectively (PepsiCo Inc, 2024).	
	The extensive global distribution network enjoyed by PepsiCo is one of its most critical strengths, enabling the company to efficiently supply its products to a plethora of countries. This network has been enhanced through strategic acquisitions, such as the purchase of the Pepsi Bottling Group in 2010, which allowed PepsiCo to fully integrate its distribution channels, increasing operational efficiency and reducing costs (PepsiCo Inc, 2024). The global reach of PepsiCo's distribution system is further bolstered by its partnerships with local suppliers and distributors, ensuring that PepsiCo products are accessible even in remote or developing markets. This has been particularly advantageous as PepsiCo expands its operations in fast-growing	Yes	Yes	Yes	Yes	PepsiCo's extensive global distribution network is a valuable asset, enhancing the company's ability to serve both developed and emerging markets effectively, contributing to strong revenue growth (PepsiCo Inc, 2024). While competitors like Coca Cola also have global distribution capabilities, PepsiCo's reach into both the snack and beverage markets sets it apart as its ability to distribute a diverse portfolio across multiple regions gives it a rare competitive edge. Building a distribution network on the scale of PepsiCo's requires significant time, capital investment, and operational expertise, making it extremely difficult for competitors to replicate, especially in emerging markets (PepsiCo Inc, 2024). PepsiCo has optimized its supply chain and logistics operations to fully exploit the value of its distribution network. Strategic	**Priority 2 Strength**

	regions like Latin America, Africa, and Asia-Pacific, where demand for snacks and beverages is rising (Gamble, 2024).					investments in infrastructure and technology have enabled the company to enhance efficiency and reduce costs while expanding into new markets (Gamble, 2024).	
Weaknesses	PepsiCo has taken on significant debt due to a series of major acquisitions over the years, including its $3.85 billion purchase of Rockstar Energy in 2020 and the $8.26 billion acquisition of Pepsi Bottling Group in 2010 (Gamble, 2024). These acquisitions have been key to expanding PepsiCo's portfolio and enhancing its distribution capabilities, but they have also increased the company's debt burden, raising concerns about long-term financial flexibility (FTSE Russell, 2024a). While these acquisitions have positioned PepsiCo well in high-growth categories like energy drinks and streamlined its operations, the elevated debt levels may limit its ability to invest aggressively in new ventures or withstand economic downturns.	No	No	No	Yes	While PepsiCo's acquisitions have helped expand its portfolio, the associated debt does not provide any direct value and could restrict the company's ability to invest in future growth. High debt burdens also increase financial risk, especially in times of economic downturn (PepsiCo Inc, 2024). However, high debt levels are not rare in the food and beverage industry, as many large companies use acquisitions to fuel growth. Competitors like Coca Cola have similarly taken on debt to expand their portfolios, making this a common weakness (FTSE Russell, 2024b). High debt is not inimitable, as any company can accrue debt through acquisitions, thus the burden of debt is not a differentiating factor, despite it posing a risk to PepsiCo's financial flexibility. Although it has high debt levels, PepsiCo has the financial strength and cash flow systems in place to service this debt effectively as the company continues to generate strong free cash flow and maintains an aggressive dividend and share repurchase policy, demonstrating that it is organized to manage this weakness (Gamble, 2024).	**Priority 1 Weakness**
	PepsiCo has seen a steady decline in carbonated soft drink sales in mature, health-conscious markets like the U.S. and Europe, as consumers shift toward healthier beverage options (Gamble, 2024). This trend is exacerbated by increasing regulatory pressures, such as sugar taxes, which have further disincentivized soft drink consumption (PepsiCo Inc, 2024). However, in developing markets, particularly in Latin America and parts of Asia, soft drink sales continue to grow,	No	No	Yes	Yes	The decline in carbonated soft drink sales, particularly in mature markets like North America and Europe, presents as a weakness to PepsiCo. As consumers shift toward healthier options, the traditional soft drink market no longer contributes the same value it once did. Declining soft drink sales are a widespread issue across the beverage industry, affecting all major players and making this weakness common in the industry (Grimmelt et al., 2022). The trend of declining soft drink sales in health-conscious markets is driven by	**Priority 3 Weakness**

	driven by rising disposable incomes and less emphasis on health concerns (Gamble, 2024). This dichotomy presents both a challenge and an opportunity for PepsiCo, as it must balance the decline in mature markets with the growth in developing regions.					consumer behavior and regulatory pressures, making it difficult to reverse. While competitors can innovate to address this challenge, the underlying trend is difficult to counteract directly. PepsiCo is organized to address this issue by diversifying its beverage portfolio, including investments in healthier options (Gamble, 2024). Additionally, PepsiCo has capitalized on strong soft drink demand in developing markets like Latin America, where consumer preferences are less health-focused for the time being (Gamble, 2024).	
	Despite its global presence, PepsiCo remains heavily dependent on mature markets, particularly North America, for the majority of its revenue as a cash cow. In 2022, Frito-Lay North America and PepsiCo Beverages North America accounted for over half of the company's net revenues (Gamble, 2024). While these markets are relatively stable, growth prospects are limited, and PepsiCo's heavy reliance on them makes the company vulnerable to economic slowdowns or shifts in consumer behavior. Furthermore, developed markets have increasingly embraced health-conscious trends, which challenge PepsiCo's traditional product lines (Grimmelt et al., 2022). Although PepsiCo has made strides in expanding into emerging markets, this dependence on mature regions remains a significant weakness.	No	No	No	Yes	PepsiCo's reliance on mature markets like North America and Europe limits its growth potential. These regions are largely saturated, and PepsiCo's significant exposure to them makes it vulnerable to economic slowdowns and changing consumer trends. Dependence on mature markets is not rare among global consumer goods companies. Many large firms face similar challenges in balancing revenue streams from mature and emerging markets (Thompson, 1999). Thus, this weakness can easily be imitated, as other companies with strong presences in mature markets face similar challenges. PepsiCo appears to be organized to encounter this weakness head-on as it has made significant investments in emerging markets, which accounted for a growing portion of its revenue in recent years. The company is actively diversifying its geographic revenue base and expanding its product offerings in these markets to reduce reliance on mature regions (Gamble, 2024).	**Priority 2 Weakness**

Appendix VI

In this Appendix, a TOWS Matrix is displayed outlining strategic alternatives for PepsiCo by aligning internal factors (strengths and weaknesses) with external factors (opportunities and threats). Each quadrant suggests a strategy that leverages strengths, addresses weaknesses, seizes opportunities, or mitigates threats, based on a thorough analysis of PepsiCo's competitive position in the market.

		Internal Factors	
		<u>*Strengths*</u>: 1. *Ability to innovate, diversify, and match evolving consumer preferences* 2. *Extensive global distribution network* 3. *Trusted brand portfolio with strong consumer loyalty*	<u>*Weaknesses*</u>: 1. *Significant debt burden due to a series of major acquisitions over the years* 2. *Despite global presence, heavy dependence on mature, slow-growth markets* 3. *Decline in carbonated soft drinks sales in mature, health-conscious markets as consumers shift toward healthier beverage options*
External Factors	<u>*Opportunities:*</u> 1. *High degree of historical brand loyalty* 2. *Consumer preferences trend for healthier snack and beverage alternatives* 3. *Consumer preferences trend for socio-environmentally conscious and ethical brands* 4. *Usage of AI in food and beverage supply chain and distribution network* 5. *Dominance in economies of scale within industry*	**SO: Leverage brand loyalty and innovation for healthier products in the right markets →** PepsiCo should leverage its ability to innovate and diversify, along with its trusted brand portfolio, strong consumer loyalty, and wide distribution network (strengths), to aggressively expand its product offerings in healthier snack and beverage alternatives for markets that demand it (opportunity). This could include launching new low-sugar, high-protein snack lines or expanding existing health-focused brands like Quaker and Tropicana. PepsiCo can also build on its brand loyalty to drive the adoption of these healthier products, further strengthening its foothold in this growing segment.	**WO: Address debt burden by capitalizing on economies of scale and AI →** PepsiCo can capitalize on its dominance in economies of scale and the usage of AI in its food and beverage supply chain (opportunities) to improve operational efficiencies and reduce costs, which can help manage its significant debt burden for the future (weakness). By optimizing production, distribution, and supply chain operations through AI, PepsiCo can lower its operating costs and allocate savings toward reducing debt levels, thereby strengthening its financial position over time.
	<u>*Threats:*</u> 1. *Geopolitical conflicts, sanctions, and restrictions disrupting operations* 2. *Highly competitive market with large competitors* 3. *Taxes on unhealthy foods and beverages* 4. *High availability of substitutes (e.g. private label, healthier options, competitor products, etc.)* 5. *Low switching costs for consumers*	**ST: Use global distribution network and economies of scale to mitigate geopolitical risks →** PepsiCo's extensive global distribution network and economies of scale (strengths) can be utilized to mitigate the impact of geopolitical conflicts and disruptions (threat). By diversifying its sourcing and production hubs in different regions, PepsiCo can reduce reliance on areas vulnerable to sanctions or geopolitical tensions. Furthermore, the company can use its distribution efficiency to ensure continuity in supply chain management, limiting disruptions from regional conflicts.	**WT: Reduce dependency on soft drink sales by expanding health-conscious offerings →** PepsiCo's heavy dependence on mature, slow-growth markets and the decline in carbonated soft drink sales (weaknesses) make it vulnerable in health-conscious markets. To counter this, PepsiCo should accelerate its shift towards non-carbonated soft beverages, such as flavored waters, sports drinks, and plant-based options, to reduce the risk of further revenue losses in health-conscious regions (threat). By actively promoting its health-focused brands and products, PepsiCo can diminish the threat posed by taxes on unhealthy foods and the rise of substitutes like private labels and healthier options.

Appendix VII

According to the thorough analyses presented in the appendixes throughout this case, the recommended strategy for PepsiCo is to leverage brand loyalty for healthier products in the right markets (SO intersection) while maintaining investments in current and traditional portfolio offerings in fast-growing markets. The company should prioritize leveraging its strong brand loyalty, innovative capabilities, and global distribution network to expand its product offerings in healthier snacks and beverages in mature markets that demand these new trends, such as North America and Europe. Simultaneously, the company should continue to focus on its existing high-performing portfolio (such as carbonated soft drinks and traditional snacks) in fast-growing markets like China and Brazil (Gamble, 2024), where these products are still in high demand. By allowing these markets to serve as cash cows, PepsiCo can generate revenue that will support investments in new health-conscious product lines in mature regions to make the transition effective and tailored to geographical and socio-demographic differences.

This strategy is designed to balance PepsiCo's need for growth in health-conscious segments with its continued success in fast-growing markets. In mature markets consumers are shifting toward healthier alternatives, and PepsiCo can capitalize on this trend by expanding its portfolio of healthy and functional snacks, beverages, and plant-based products. At the same time, in emerging and fast-growing markets, PepsiCo's existing offerings, such as traditional soft drinks and snacks, continue to generate substantial revenue as consumer preferences there still favor these products. By using the revenue from fast-growing markets, PepsiCo can reinvest in its health-conscious initiatives in more mature markets. This approach ensures that PepsiCo doesn't prematurely reduce its stake in markets where its current offerings are still highly profitable, while also positioning the company as a leader in healthier-for-you offerings in regions where consumers are demanding healthier products. Utilizing cash cows might also assist the company in not exacerbating its debt burden beyond limits. Furthermore, this strategy allows PepsiCo to navigate the highly competitive beverage industry, where its main competitor, Coca Cola, focuses heavily on carbonated drinks. PepsiCo's diversified product portfolio, including snacks, gives it the flexibility to succeed in both emerging and mature markets. By focusing its health-conscious product innovations in mature markets and maintaining its current offerings in fast-growing regions, PepsiCo can ensure a steady cash flow while investing in long-term growth.

To implement PepsiCo's strategy effectively using the strategy diamond framework (Wurthmann, 2020), the company should first focus on its arenas: expanding its health-conscious product offerings in mature markets such as North America and Europe, where consumer demand for healthier, sustainable products is growing. These arenas will include low-sugar, low-sodium, high-protein, and plant-based snacks and beverages. At the same time, PepsiCo will maintain its traditional product lines, like traditional carbonated soft drinks and snacks, in fast-growing markets like China, Brazil, Mexico, and Argentina, where consumer preferences still favor these offerings. These traditional products will continue to generate the cash flow needed to support investments in health-conscious innovations. The vehicles to reach these goals include internal R&D for developing healthier product lines and PepsiCo's existing global distribution network to ensure efficient delivery of both traditional and new products across markets. PepsiCo's strong brands, such as Lay's and Pepsi, will serve as key vehicles for launching its health-conscious product innovations. PepsiCo's differentiators will be its ability to innovate in the health-conscious space while maintaining its brand loyalty and leveraging sustainability within the industry. By offering products with functional ingredients, clean labels, and eco-friendly packaging, PepsiCo will position itself as an even stronger leader. Meanwhile, in fast-growing markets, the company will differentiate through its affordability, convenience, and strong brand recognition for traditional offerings – that is also until these markets also see increasing demand for health-conscious offerings, in which case, PepsiCo will already have an arsenal available for implementation and further growth. In terms of staging, PepsiCo will first prioritize the expansion of health-conscious products in mature markets over the next 12 months, capitalizing on immediate consumer trends. Once established, the company will gradually introduce these products into fast-growing markets, ensuring that traditional products continue to dominate until consumer preferences shift. The economic logic behind the strategy involves using cash flows from fast-growing markets as cash cow brands to fund the development of new health-conscious products in mature markets. By maintaining premium pricing on health-focused offerings and cost efficiencies on traditional products, PepsiCo can maximize profitability and ensure long-term growth in an evolving trend industry which the company would then keep up with. This dual approach allows PepsiCo to balance its short-term cash flow needs with future growth potential in wellness and sustainability, ensuring sustained shareholder returns.

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