Good morning, and thank you for attending PepsiCo's Investor Meeting. Presenting today will be Indra Nooyi, PepsiCo's Chairman and CEO; and Hugh Johnston, PepsiCo's CFO. Following the presentation, Indra and Hugh will be joined for Q&A by John Compton, CEO PepsiCo Americas Foods and Global Snacks Group; Al Carey, CEO PepsiCo Americas Beverages; Zein Abdalla, CEO of PepsiCo Europe; and Saad Abdul-Latif, CEO PepsiCo Asia and Middle East, Africa.

Before we begin, please take note of our cautionary statement. This presentation includes forward-looking statements, including statements regarding 2012 guidance and our long-term growth targets based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause our actual results to differ materially from those predicted in such forward-looking statements. Statements made during the meeting should be considered together with cautionary statements and other information contained in today's earnings release and in our most recent periodic reports filed with the SEC. And unless otherwise indicated, all references to revenue, EPS growth, ROIC and division and total operating profit, growth are on a core constant-currency basis.

Finally, defined disclosures and reconciliations of non-GAAP measures that we may use when discussing PepsiCo's financial results, please refer to the Investor section of PepsiCo's website under the Investor Presentation tab. And now, it's my pleasure to introduce Indra Nooyi.

Indra K. Nooyi

Thank you, Jamie, and good morning, everyone, and thank you for joining us in person here today. My goal is to cover 5 topics this morning. I'm going to very briefly cover 2011 results and take a little journey back over the last 5 years and tell you what we've accomplished. And then we'll give you an overview of PepsiCo and outline our strategic priorities very briefly. We're then going to spend quite a lot of time reviewing the results for comprehensive review of our businesses that we recently completed. Then we'll provide you our financial outlook for 2012 and beyond, and then introduce to you a scorecard, which we will use to measure our progress.

So with that, let me start with our 2011 performance. We issued our 2011 results this morning, and I'm not going to spend too much time going into details except to tell you that 2011 on balance was a good year. Snacks volume grew about 8%. Beverages volume grew about 5%. Net revenue was up 14%, and both core division operating profit and core EPS grew 7%.

We had broad-based gains in snack and beverage volume and net revenue. And we were able to achieve net price realization that partially offset the extraordinary commodity inflation we faced. More importantly, in 2011, we made disciplined investments in the business to generate long-term growth. We drove productivity through cost management. And more importantly, we were able to offset the impact in some of our markets, our skittish economy, natural disasters and political unrest with gains from some selective disposals of noncore businesses.

And of course, we benefited from the acquisition of Wimm-Bill-Dann, which is a critical addition to our Russia business that further strengthened our already strong position in this key developing market. Importantly, we also continue to generate strong cash flow. Management operating cash flow exceeded $6 billion. And as a result, we were able to return $5.6 billion in cash to our shareholders through share repurchases and dividends.

So that's 2011. For 2011 really caps a 5-year performance that delivered core net revenue compounded growth rate of 13%, core operating profit growth of 9% and core EPS growth of 8%. This performance also drove terrific cash returns. Dividends per share grew at 12% annually. And our cash return to shareholders through dividends and share repurchases totaled $30 billion over the past 5 years.

This is the financial scorecard. What's not evident from the 5-year financial performance is the incredible transformation that took place in PepsiCo during the same time. When I came into the CEO job in late 2006, I realized that PepsiCo had to make some bold transformative moves to remain successful well into the future. Because most the tailwinds of the first part of the decade were not going to be around in the second half, and in fact some of them became headwinds in the second half of the decade, so we got to work.

Starting in 2007, we began to scale up our emerging and developing market business. In fact, our emerging and developing markets revenues went from $8 billion in 2006 to $22 billion in 2011, with the mix increasing from 22% of revenues to 34% of the revenues over that same time frame.

Over that period, we also addressed a number of business issues that faced us. First, we had to reconfigure our North American bottling operation in order to address the serious structural issues of not having an integrated bottling operation in this increasingly diversifying but slow growth liquid refreshment beverage market. We had to restate the Gatorade brand and return it to growth, following significant volume declines in 2007 to 2009. Then we had to restructure and refranchise our Mexican beverage operation to create a single entity with capable partners so that we can restore that business to growth.

And then to kickstart the China business to a level -- beverage business to a level that was higher than the past, we refranchised our business to Tingyi, which is now in the midst of government approval. And with this partnership, I think we really take our whole China beverage growth to a whole new level.

I think all of this creates tremendous vehicles for sustainable profit growth across many of our markets. But beyond that, we also increased our investment in R&D by 50%, boosting our core capabilities and making substantial talent additions and partnership investments in areas such as advanced retail technology; packaging, where we came out with the first 100% plants derived bottle; and equipment innovation, where we're going to be alpha testing a very exciting food service beverage dispenser in 2012.

In 2007 to '11 period, we also significantly expanded the health and wellness offerings of our portfolio. And I know some of you have expressed some concern, whether the pendulum swung too far in the direction and whether we took our eye off the core offerings. What I'd like to tell you is that, the direct answer is this is an and game not an or game. We have to focus on both growing the core, which is the Fun-for-You products and the Better-for-you products and step up our investment in Good-for-You products. And I assure you that, that's what we've done and we'll continue doing. So let me provide some context on what we've done in the whole health and wellness space.

First, we increased the permissibility of our core salty-snack and beverage products by reducing sodium, frying them in heart-healthy oils, using natural ingredients and reducing sugar and reducing calories. The second thing we did was dialing up the sales of our baked products and snacks and 0-calorie beverages, which is really capitalizing on a sustainable consumer trend. And the third thing we did was focus significant attention resources on our Good-for-You businesses to make sure that we're fully capitalizing on their global growth potential.

In North America, for example, we've been very successful in restoring momentum to Gatorade. We've made good progress with Tropicana. And the next one we have to address is Quaker Oats, especially North America. Internationally, we've had strong double-digit growth over the past 5 years for both Tropicana and Quaker, and we've expanded this well through juice and dairy acquisitions.

Importantly, we've targeted resources working on nutrition platforms globally, the benefits of which we will start seeing over the next few years. As a result of these efforts, we've enhanced our core offerings and our Good-for-You portfolio. And the Good-for-You part has now increased its share in our portfolio from 17% to 20% of our revenue over the past 5 years. So that's our narrative on our product shift.

But the other thing we did over the last 5 years was continue our investment in SAP. And we did that without taking any chance to the P&L. We just kept investing because we believe that we had to really fix the technology base of the company, so that we can have more opportunities for productivity improvement.

And beyond financial investments, we made a major commitment to start shifting the culture of the company. The first thing we did was put in place an organization structure that leverages the scale of PepsiCo in a much more substantial way. And I believe the change was absolutely necessary. Because with this shift, we've gone from decentralized silos, decentralized regional silos, to what I would call now as much more of a connected autonomy structure.

And if you look at the chart, the primacy of the P&L still stays with the regions, the geographies. And that's the fundamental principle of PepsiCo. But we’ve begun to connect important elements of the enterprise to much more effectively leveraged ideas, capabilities and scale across the globe.

But this organization shift was just one piece of the culture change. We began to address other aspects of our culture we just absolutely had to change. We're evolving from being developed market dominant to having a truly global mindset in the company. We're also moving from a trade spending push model of selling to a more balanced push/pull model of both marketing and selling.

The other change is that emerging markets in the first part of the decade used to largely be a pay-as-you-go approach. But it doesn't work for emerging and developing markets, which take a lot of time to build. So over the past 5 years, we made deliberate choices to step up our investments in key emerging markets because, I think, it's absolutely necessary to fully capitalize on the growth opportunities and keep PepsiCo growing well into the future.

And lastly, over the last 5 years, we started to change our talent development process from a traditional model, which has been very effective for us, to a more strategic approach to build, buy and bond talent to the company. We have tremendous talent within PepsiCo, and we're absolutely committed to developing the talent. But it's also important to note, that as we implement some of the changes in the company into our portfolio, we need experienced people with different skills to help us navigate through this new volatile environment so that we can remain a growth company.

And I want to mention to you that the portfolio changes, the transformation, the culture changes, all of these changes were affected in a difficult macro environment. So on balance, I believe we've done many of the right things over the past 5 years to improve the business and position for sustained growth and attractive financial results for years to come.

Now let me be clear on one thing. I'm not suggesting we executed everything perfectly over the last 5 years. Could we have done something differently or better? Sure. So we've gone back and looked at every one of our decisions and said, what could we have done differently?

Let me give you some of these things that I think we could have done differently. First, I think we could have used the synergies from the bottling acquisition to invest more in growing the top line rather than committing to flow it through to the bottom line. Second, I wish we had stepped up our overall brand support, especially in North American beverages earlier. Third, had we anticipated the commodity volatility that we saw in 2010, 2011 and going into 2012, we could have gone after productivity much more aggressively sooner to help cushion some of those commodity cost increases.

I also think some of the people moves that I made perhaps could have been made a bit earlier so that we could have gotten on with this program faster. And lastly, I think we could have done a better job establishing performance expectations with you, our investors, at a level that we could absolutely deliver on. And I think some of these topics, addressed earlier or more effectively, would have resulted in even better operating performance. And as a result, better stock price performance, an area that I know has been frustrating for many of you in this room in this morning.

And to be honest, the reason I didn't take some of these resets earlier is because a CEO gets a chance to make a reset once every 10 years. And you only make a major reset when you have a clean line of sight to bounce back. And I didn't feel I had that clean line of sight the last 5 years. We have it now, and that's why we're doing it today. And that's why, today, as you see in the press release, we are taking clear actions right now to step up brand investment, increase productivity, reduce capital spending and improve shareholder returns.

So as we pause to look at PepsiCo today, I think we are extremely well positioned. We generate $66 billion in annual revenue. We're the second largest food and beverage business globally. We have operating margins of 16%. We have net ROIC of 17%, and we have return on equity of 31%.

Our mission for the company is clear and focused. We want to captivate consumers with the world's most loved and best-tasting convenient foods and beverages. And we feel confident in our ability to deliver on this mission, based on the significant structure and capability advantages that we possess as a company.

We compete in categories with attractive growth, margins and returns, whether it's snacks, beverages or the nutritional category, because all of these categories have global growth of 5% or more. Our core businesses of convenient foods and beverages are highly complementary. They share not only common consumers and customers, but they also share resources and capabilities like agro sourcing, R&D capabilities, packaging, flavoring, go-to-market systems, finance, HR talent and all the G&A functions.

And I think our businesses will continue to benefit from global mega trends like on-the-go lifestyle, a rapidly growing middle class in emerging and developing markets and consumer seeking a repertoire of products that spans Fun-for-You to Good-for-You. We have a very broad and powerful brand portfolio that connects with consumers, including 22 iconic billion-dollar brands, a number that's doubled in the past 11 years. And these brands span everything from Fun-for-You to Good-for-You, and all of our brands are typically #1 or #2 in their respective categories.

I don't know if you know this little factoid, but Lay's is the #1 global food brand. Lay's is the #1 global food brand. And Pepsi, as you well know, is the #2 global beverage brand. We also have a truly global footprint with trends in more than 150 countries. And as I mentioned earlier, we have a $22 billion emerging market business. And we have tremendous go-to-market reach, which is largely enabled by our DSD systems, which have been developed over many, many decades. And they're all tailored to suit local market dynamics, so that we can efficiently and effectively reach millions of points of sale everyday and billions of end consumers.

And we leverage all of these strengths to deliver against our 5 strategic priorities, which we've been focused on for the past several years. To build and extend macrosnacks globally. As most of you know, we have a 10x relative market share in salty snacks globally and we are growing the core or extending towards adjacencies. We just keep growing this macrosnack business.

Secondly, we are the #2 player in beverages globally. And our goal is to sustainably and profitably grow this beverage business worldwide. Third, we have 3 of the top brands in health and wellness. And we're going to leverage these brands in the health and wellness category momentum to grow this Nutrition business. The fourth strategic priority is to leverage the coincidence of consumption between snacks and beverages and capitalize on this cross category presence to grow our scale in individual countries. And lastly, we will manage the financial results and position of this company in a prudent and responsible way.

These strategic priorities have not changed over the several years, and we will remain focused on them going forward. Taken together, we believe our mission, the strength of our portfolio and strategic priorities will enable us to generate top-tier financial results for our investors over the long term. Revenue growth in the mid-single digits. We expect balanced growth between Fun-for-You, Better-for-You, Good-for-You. And this growth will be predominantly organic. And we expect to continue to benefit from an increasing emerging and developing market presence. And this portfolio translates to high-single digit earnings per share growth, with increasing margins and return on capital and leads to free cash flow growing in line with net income. Which in turn, enables strong cash returns to shareholders through a combination of dividends and share repurchases.

So the key question that U.S. investors have asked us is, can this portfolio generate these kinds of returns on an ongoing basis? And that's what prompted us to undertake a comprehensive review of our business. We looked at every aspect of our portfolio and operating practices. And what I'd like to do is to share with you the scope, findings and the go-forward actions, now that the review is complete.

So the first area we examined was our portfolio. We began with a question that's been speculated upon a lot in the recent months. Should PepsiCo split its snack and beverage businesses? And the overriding finding from our portfolio analysis is that PepsiCo's value is maximized as one company. Because the current structure, there's 3 things.

First, it provides compelling cross leverage across the value chain from an R&D, procurement, consumer insight, sales, merchandising, back-office functions. It provides compelling scale and cost leverage.

Second, it enables us to accelerate in-market growth. Because in market, we benefit from the coincidence of snack and beverage consumption occasions. We benefit from the commonality of consumer and the opportunity to cross-merchandise and promote our products. But in emerging markets, in particular, our Snacks business benefits massively from the scale of our

Beverage business, which can be scaled up very quickly. And without the presence of our Beverage businesses, our ability to establish and grow Snacks businesses in emerging markets would be significantly reduced. It will take much more time and require a significant amount more of investment. That's the second reason.

The third reason is that, our operation as one company, enables us to share capabilities across geographies and sectors and allows us to attract better talent. This is important everywhere in the world, but particularly in emerging and developing markets where the combined scale of our 2 businesses helps us be the preferred company to work for.

I can tell you that in emerging markets, and I travel there all the time, Pepsi is such an iconic brand that young people want to come to work for Pepsi. You bring them into Pepsi and a little while later, you put them into Lay's and Coqueiro and those products. So that's the virtuous circle how it works.

We estimate that simply on the cost side of the equation, the benefits of having an integrated company are somewhere between $800 million to $1 billion, primarily related to in-country G&A, procurement, share distribution and infrastructure, corporate G&A and financing costs. And this does not take into account the profitability associated with top line synergies. And it does not factor in the massive disruption that would surely occur if we try to separate these 2 businesses.

So net-net, based on this exhaustive analysis we undertook as a management team with external advisors, with the involvement of our Board of Directors, we are absolutely convinced that PepsiCo's value is maximized as one company. Well, we didn't stop there. We expanded our portfolio review to dig deeper into our portfolio of countries and businesses. And we asked ourselves the question, what is the performance trajectory of the individual businesses in countries and how can we sustain or improve well-performing businesses? And what can we do to fix the few underperforming business we have? And we looked at what additional options exist to strengthen the portfolio and the optimal portfolio configuration to maximize shareholder value.

And to answer all of these questions, we mapped our businesses across 2 dimensions: margin and growth performance. With performance relative to each businesses respective market and whether the business was related to our mission. And what we found is that, for the most part, our businesses are highly related to our mission and are generally performing well. So this chart shows how our division operating profit falls across these dimensions.

75% of our profit comes from businesses highly related to our mission, and performing very well. Noncore businesses comprise a relatively small percentage of the overall portfolio, about 5%. And these are well-performing businesses. The gray box down there represents less than 1% of our profit. And we have largely addressed these opportunities, and I'll tell you what they are. And that leaves 20% that are related to the mission, but with some opportunity to improve their growth and/or margins.

And we are absolutely clear on what needs to be done in each of these quadrants. High-performing rate of business will be sustained, invested in and supported. Higher performing but unrelated business will be managed judiciously and they'll be divested, only if it makes financial sense. Because most of them contribute positively to our returns and cash flow. Lower-performing unrelated businesses should be divested, and will be divested. And low-performing related businesses will be operationally improved to drive better growth and return with clear timetables for improvement. And if the underperformance cannot be addressed operationally, then we will seek structural solutions to improve return or reduce our exposure. And this quadrant is clearly a major area of focus for us.

So let me give you examples of how our businesses mapped across these quadrants. Clearly, on the upper left, you see Frito-Lay North America, our Quaker, Tropicana, Gatorade businesses, many of our international beverage and snack businesses. On the upper right, you'll find some of our central store food businesses, which are pretty small compared to the size of our portfolio. And while they don't really relate to our Convenience mandate, they are prolific cash generators with very high returns, and will be dilutive to our returns and earnings under any divestiture scenario that we want.

In our lower right box, there are a couple of very small businesses, Kretschmer Wheat Germ, Coqueiro, our fish business in Brazil, and they've all been divested now. Finally, in the lower left, we find a couple of our emerging market beverage businesses, our North American DSD Beverage business and some emerging markets snacks businesses. And we're making great progress in addressing each of these businesses.

One of the businesses that was in this box was Mexico beverages. By refranchising it and creating a very strong entity with 2 highly capable beverage partners, I believe we've addressed the Mexico beverage underperformance issue. In China, the growth of the market is explosive. Our growth was explosive, but we needed a partner to really kickstart this growth.

We now have a transaction with Tingyi pending. Tingyi will be our franchisee, it's pending regulatory approval, and will create an anchor bottle in China that will really help PepsiCo take its Beverage business to a whole new level. We have a few snack businesses in emerging markets, where I believe the natural growth of these businesses will improve the results and the operating margins of those businesses. That leaves the North American DSD business, DSD Beverage business, which accounts for a lion's share of the profits in this quadrant.

So I want to set the context for North American DSD beverages. It's a large highly profitable category, North American beverages. It's important to retailers because of its ability to generate shopper traffic, and because it's profitable and an excellent cash-generator even to retailers. As PepsiCo, we have a very good competitive position with the #1 share of the liquid refreshment beverage category in retail. And most importantly, we own 3 of the top 5 LRB trademarks with Pepsi, Mountain Dew and Gatorade. And with Mountain Dew, we have the fastest growing major CSD trademark in the industry.

However, there are some issues. Category growth has been challenging. The marketplace is intensely competitive. Commodity inflation and volatility have made this market that much more difficult. And let's not forget, we do face a competitor who's emerged from a major reset that they undertook between 2004 and 2008. And I will tell you, between 2007 and 2010, we did lose some market share. Recently, our share trends have begun to improve, but we are not happy with the pace of improvement and recognized the need to accelerate progress. One of the reasons we brought the bottlers back is because we wanted to address the share issue in this business.

So against this backdrop, we are totally committed to actions to improve both the growth and returns of our North American Beverage business. So what are we going to do? We are going to significantly step up our A&M support to reengage consumers with our terrific brand, focusing on our most important brands to drive the maximum impact from our investment. And you know what's interesting? Over the last 5 years, North American A&M did not decline, but the spending was supporting too many brands and was spread across too many agencies. We allowed nonworking A&M to squeeze out working A&M. So we went to work and we cleaned house. We've reduced agency relationships in North American beverage from 150 to about 50. So it's not just a step up in A&M. The impact of shifting nonworking A&M to A&M will be significant and this whole A&M spending will be amplified.

We're also accelerating our innovation across product and package with a very special focus on revenue management. For example, Pepsi NEXT is a great example of leading the market in product innovation. And thanks to the investments we made in long-term sweetener technology. We are launching a product that delivers the great taste of Pepsi with 60% less sugar. We're also going to step up our package innovation. And great examples that will drive our revenue management agenda are the 24-ounce Dew can, which will drive further growth of this $1 billion brand into new location. And the Starbucks Refreshers launch in the 12-ounce slim can. Grab a can of that Mountain Dew as you leave and the Refreshers are out there in the lobby.

We're also going to capitalize on the food service opportunity, especially local and regional food service. As many of you know, this was an area where we had a structural disadvantage, relative to our largest competitor, prior to our acquisition of the bottlers. We've made the appropriate changes, and we're making good progress in food service.

We're also dialing up our excellence in execution by shifting distribution systems that will improve performance. A good example of that was moving Gatorade to DSD in small format. But we're not stopping there. We're looking for other opportunities to leverage the right distribution system for the right product. We're also going to use our snack business to drive greater frequency of coincidence of consumption. And linked to our overall productivity efforts, we are stepping up productivity to improve margins and create additional funding for future investment.

We intend to take out about $500 million to $600 million in costs to the North American Beverage business by 2014. We're also accelerating R&D in key breakthrough areas like low-cost natural sweeteners, more packaging innovation and food service equipment innovation. So a lot is happening in North American beverages, all focused on one thing: to hold or increase value share in this market.

And while we work through these operational improvements, we are simultaneously exploring structural options to jump shift PepsiCo's returns on capital that's deployed into this business. So that's a summary of the overall portfolio look that we undertook.

While our operational review of the last 6 months went beyond a high level portfolio analysis, and really took a deep dive on the supporting fundamentals that drive our business. We know that success for PepsiCo is dependent on world-class brand building and innovation. It's dependent on excellence in execution every day and every moment of truth, achieving the right cost structure and the optimal capital structure and most importantly, being a great place to work.

We went through and looked at how we stack up against each of these requirements. And let me walk you through the conclusions of our review on each of these items, what we found and what we'll be doing as a result. On brand management. In PepsiCo, our marketing approach has historically been highly decentralized with each country introducing brands as needed. To prove the point, it may surprise you that we have more than 400 brands in our portfolio, and this brand proliferation over the years has diluted the incrementality of our initiatives.

And there's no point stepping up the A&M investment if it's going to be fragmented across 400 brands. So we knew there was a consolidation opportunity here. So as a result of our deep dive, we'll be refocusing and streamlining our brand portfolio, sharpening their positioning with consumers, herding a lot of the new innovations of the big brands and slowly start shifting volumes from the tail of the portfolio to the core brand portfolio.

We're going to invest and drive growth behind 12 mega brands: Pepsi, Dew, Sierra Mist, 7Up in international markets, Gatorade, Tropicana, Mirinda, Lay's, Doritos, Cheetos, Lipton, Quaker and the Sun brand. These 12 brands will have aligned positioning globally. They'll have consistent campaigns and scaled innovation platforms.

For example, we'll be launching the first global Pepsi campaign in the summer of this year with common iconography, a common approach and common positioning. The first global Pepsi campaign in PepsiCo's history. We're also stepping up our investment, our A&M investment, behind these 12 brands by $500 million to $600 million in 2012, which represents about a 15% increase. And because North America is such a large market, it will receive a disproportionate share of this increased funding.

And while we are increasing the A&M, we're also streamlining our agency relationships. Today, we have about 300 relationships with strategic vendors across the globe. And we're looking to reduce that number by more than half, driving greater efficiency of spend. But spend is one thing. We're also instituting joined performance metrics with our partners. And we're implementing a pay-for-performance model, which makes sure that we get the best talents and agencies devoted to PepsiCo's businesses.

So what all of this will do is allow us to shift more of our overall A&M from nonworking A&M to working A&M, which means reduce what we spend on production costs and agency fees to actually consumer facing A&M. And this target of shift of spending to more working A&M will add considerably to the brand presence consumers will feel, than just the $500 million to $600 million in incremental spending.

And beyond just the spending increase and the shifting of A&M, we've developed one common way to measure brand equity across the world. And our goal is to track the brand equity evolution of each of these global brands regularly and intervene, when appropriate, to make sure we hold or increase the brand equity with our overall consumers in every one of the key countries in the world. And that was all the brand work we did.

The next area that we reviewed was innovation. And innovation is our lifeblood, we need that to keep growing. But as we dug deep into innovation, no surprise to you, the consumer environment has changed radically. Retail shelf space is scarce. Consumers have become more demanding. Competition has intensified, especially with the emergence of pure-play competitors fragmenting the market a lot.

PepsiCo is a prolific innovator. And there's a lot about our innovation that we should feel great about and you should admire. IRI consistently ranks us as a leader in innovation in their center [ph] report. And in 2011 alone, we have 11 of the 15 top-selling items in C-stores, and a lot of them were new products that came into the market in 2010 and '11.

But the problem is that, yes, we are a prolific innovator, but the staying power of this innovation can be much better. Some of it relates to the quality of the innovation. Sometimes it also relates to our lack of patience and a bit of Darwinian mindset that's engendered by the DSD go-to-market system. So as we sat back and looked at all of our innovation, we realized that something had to change in what we were doing in PepsiCo. We don't believe we are delivering enough incremental innovation. And we can do better. So we are rebalancing our approach.

We have now set very specific goals for 3 innovation types: refresh innovation, which is mostly line extensions; reframe innovations; and breakthrough innovations. And our goal is to drive a higher mix of reframe and breakthrough, which have the potential of being a lot more incremental.

So examples of reframe innovation would be Trop50. Which has brought back users into the juice category who left the category because of the high calories of juice. And Tostitos Scoops. We've solved the issue of getting dip on your tie or dress when you eat a regular Tostitos. An example of breakthrough innovation would be products based on the work we're doing with natural 0-calorie sweeteners. Our belief is that, when that commercializes, which I hope is pretty soon, it will really start reframing the carbonated soft drink category.

And to enable all of this, we've improved the stage gate process to allow for greater incubation of new products. And we're doing one more thing, we are leveraging a Frito-Lay North America best practice. They have something called a new growth ventures model. They incubate products in a second distribution system and it reaches a certain size, bringing it in to DSD if necessary. We're going to lift and shift that idea to North American beverages, because I believe we have a lot of great innovation which are smaller volume and tend to die in the DSD system if you put it in there right away. So we're going to incubate it into a second distribution system in PepsiCo and then bring it into DSD.

More importantly, the fact that we've now created a horizontal structures with the global groups is enabling the creation and development of more innovation platforms, as opposed to products. And we're also able now to lift and shift ideas across the globe, so we don't keep repeating what we're doing country after country.

And the other amazing thing is in somewhat of a role reversal. We're explicitly taking innovation from our developing market, especially their great work on value innovation and bringing it back to the developed markets. Stila Bars and Quaker cookies from Mexico is one example of a developing market innovation that's being launched very successfully in North America.

The last thing we've done on innovation is we restructured our relationships with our consumer insights providers. And what we've told them is we're going to pay for insight, not data. So we've given them specific questions, and we want them to answer those questions, as opposed to just buying data and allowing us to troll for it.

So our priorities here are to drive higher top line, get better price realization but most importantly, increase our value share. And that's the result of our brand and innovation look.

Let me turn to the third area we looked at in great detail, which is our execution. Some of you asked in the reports you wrote or in meetings we've had with you, whether we've lost our execution edge especially here in North America. I would say no, but we went back and looked at it in great detail anyway. Generally speaking, this is an area where we are very good at. And in many cases, I'll argue we have best-in-class execution.

Frito-Lay North America in particular is awesome at execution. But we have to push the boundaries and not just be complacent that we're very good. And we also have to learn to share best practices across the company. So in the case of our North American bottling, this is going to be a renewed area of focus having just spent the last 2 years with an appropriate focus on getting the integration complete and delivering against the synergy targets.

And we know there's a lot of best practice sharing that can go on between North American bottling and Frito-Lay, both ways. So our execution focus going forward has several elements. In terms of driving inventory share in the store, our Beverage business as one company is beginning to align marketing and sales to one set of programs on promotional inventory.

In terms of ensuring perfect orders and on-time delivery, our Beverage business will be creating a centralized dispatch headquarters in order to use sophisticated dynamic routing algorithms currently being used by Frito-Lay to improve service levels and reduce costs. And in terms of new product execution, our Beverage business will start to deploy Frito-Lay's industry-leading tools to ensure disciplined store-level execution and tracking of all new products.

And these programs respond directly to the measures most important to our customers, and they have the highest correlation to increasing sales. We're also going to leverage data we've collected for our top accounts across both snacks and beverages to drive continuous improvement, and perhaps stimulate some healthy internal competition to ensure that we're best in class in this critical area.

And the last thing we're going to be doing on execution is driving and tracking coincidence of purchase between snacks and beverages. We have told you many times that our snacks and beverages are highly complementary and are consumed and purchased together. For example, 30% of CSD shopper occasions include salty-snack purchase and 30% of salty-snack purchases include a CSD. So the opportunity for PepsiCo is tremendous as we drive incremental core purchases. And every point of additional share is worth $120 million in retail sales. So we intend to exploit this coincidence a lot more.

Finally, now that we have food service in our control, we are increasing our push on gaining both local and regional food service accounts. And in 2011, we had real progress. We gained 2 points of market share in food service. I mean, that's a lot on this business. We converted key accounts from our primary competitor Papa John's, Chuck E. Cheese, Tim Horton, to name a few. And most importantly, we achieved a 98% contract renewal rate for our existing customers.

We launched new product innovations in food service. For example, oatmeal in McDonald's and Burger King and culinary innovation at Taco Bell via Fritos Burritos. I hope you've had a chance to enjoy the product. And we acquired 35,000 new food service accounts, as a result of expanding the use of broad line distributors to secure new local and regional beverage accounts and all of our field acquisition efforts.

So let me assure you, if you had any doubt, execution excellence is what we are about, what we're really good at and we will ensure that we drive ourselves and each other to be best in class uniformly. And that's execution.

Now let me turn to the whole area of cost and productivity, which is another area that we spent a lot of time on as part of this operating review. PepsiCo's always been known to be a highly productive and cost-efficient company, and we aggressively manage our cost year in and year out. We know that we're in a new environment with tremendous macroeconomic volatility, including commodity cost volatility. So we knew that we had to get even more productive to create the breathing room to deliver our numbers. So let's just take a quick look at our cost structure.

About 29% of the cost structure's raw commodities, a little over 5% is A&M and 50% is manufacturing and SG&A excluding A&M, which results in this operating profit of 16% of revenues. Our goal is to increase that operating profit number. So let me just walk you through each of the pieces.

From a commodity cost standpoint, the way we manage risk is through systematic forward buying so that we can get more cost certainty and increase cost visibility. But we're going to keep reviewing our commodity procurement approach to make sure that we have the optimal balance between risk management and visibility.

On A&M, we're going to grow it from 5.2% of sales to 6% of revenues by 2015. And in 2012, with the increase in A&M, it'll actually go up to 5.7% of sales. So the focus then is on this 50%, the big bucket. Our goal over the next 3 to 4 years is to take out 250 to 300 basis points of cost from this bucket.

And today we announced a 3-year plan to double our ongoing productivity, which will generate over $1 billion in cost savings in 2012 and $3 billion by 2014. And $1.5 billion of the $3 billion is incremental productivity versus our historical run rate. These productivity initiatives are multifunction, cross sector, and they're going to be delivering benefits throughout the entire value chain.

Our plan will become the new norm for PepsiCo by creating an ongoing global productivity culture. And this productivity program just didn't happen. It's been months of efforts across people, across the world, across all of our businesses involving all of the functions, all of the businesses, all of the sectors. We are taking actions to significantly reduce our G&A by implementing simplified organization structures. We're going to wider spans of control, fewer layers of management with consolidating facilities. We are accelerating the development and deployment of global projects impacting our products, packaging, manufacturing, transportation, how we grew our various factories and much more.

We set up a global operations group. And that's been a critical unlock, because they've been able to coordinate all of these new ideas and facilitate the lift and shift of current best practices across all of our businesses. And we have a program management office to track each of these initiatives, monitor progress, manage priorities, review achievements, identify key risks and develop mitigation plan for the global leadership team.

A critical aspect of this program is a focus on increasing operational productivity into 3 key areas of make, move and sell. And what we plan to do here is to drive world-class efficiencies through the deployment and execution of what we call global playbooks. Because these global playbooks are targeted to positively impact areas such as yield, change over times, labor and asset utilization across geographies and key lines of businesses.

Now as I mentioned to you the financial results of all of this work is that, we're going to take our 250 to 300 basis points of operating cost over the next 3 years. Now these productivity efforts will impact about 8,700 associates worldwide. Let me tell you the most difficult part of this whole productivity program has been the fact that we have to take out people. It's never easy when we have to take out people from the organization. The 8,700 people represent about 3% of our workforce. And we have to make these tough choices if we are to create the breathing room to keep reinvesting in the company.

And the other thing we did, just to give you comfort, is that we were very careful to make sure that we were not impacting the core operations of the business in taking out these people. We looked very carefully to make sure that we had all of the right functions, staffed with the right people and have the right resources so that we can keep the growth of the company going in the future.

Well, we didn't stop just with productivity and the P&L. We also looked at capital productivity. Over the last 5 years, CapEx has been about 5.5% of revenue. For 2012, we've reduced CapEx to 4.5% of net revenues. Now some of you might say, "Oh, you must have just cut it." Now we reduced it. We took a very granular approach to understand where the capacity was in the organization, where the underutilization was, how can we get lower capital into emerging markets so that we can match capital cost with the economies, of the economics of that marketplace. So we took a very granular look at our capital, and that's what allowed us to cut the CapEx into 2012. And our goal beyond 2012 is to run our business with the CapEx level of about 5% of net sales.

But it's not just capital expenditures, we're also looking at working capital. We believe we do a pretty good job with our cash conversion cycle. But again, as we looked at our cash conversion cycle in a lot more granularity, we think there's improvement in our days in inventory, DSO and DPO days. And we think there's an opportunity to reduce this whole cash conversion cycle by 10%, which will actually generate about $200 million of cash annually, incremental cash.

And to institutionalize capital productivity in the company, we will implement an EVA approach at the operating unit level, an economic value-added approach at the operating unit level, so each of our businesses can see the direct cost of the capital they deploy, whether it's normal capital expenditures or tuck-in acquisitions they propose. This is going to be part of our ongoing performance management system, and all of these efforts are designed to increase management operating cash flow and improve ROIC.

Finally, let me turn to last and most important part of our operating review, which is our organization and people. We looked at every aspect of the company in terms of morale, succession, organizational structure. We looked at everything. And let me start by telling you that PepsiCo is, and will always remain, an academy company. We are a highly desirable place to work. And in fact, according to the Chief Executive Magazine, we just moved up on the list of leadership companies from #17 to 7. And we've been named the Fortune's Top 10 Companies for Leaders.

But as a company we don't just rest on those laurels. We actually assess the morale of the company every year because we conduct an annual organization health survey, which we then augment with a midyear pulse survey, just to get a sense for how people are feeling. And then we compare it on a cross-sectional basis across the company over years. We look at it by function, across genders, ethnicities, and we benchmark ourselves against the peer group of companies who conduct similar org health surveys.

I'm pleased to report to you that our org health survey results show that by and large, we are doing better than the peer group, and the basic morale of the organization is pretty good. So from an organization perspective, we feel good about where we are.

From a succession perspective, for the top 200 roles in the company, we have a 5 deep bench. We identify people who can fill the job if somebody is hit by a bus, ready in 1 to 2 years or ready in 3-plus years. And coming out of this exercise, we have identified 500 high-potential executives who we are going to -- we've developed 10-year development plan for them and we're going to accelerate their progress with the company.

Let me briefly touch on CEO succession. CEO succession at PepsiCo started day 1, when I became CEO. We've updated our Board of Directors every year and we provide midyear updates, as necessary, on this topic of CEO succession. This is very much on top of my priority list, has been since 2006. And I believe we have outstanding leaders running each of our major businesses who are all CEO capable. So from an organization perspective, from a people perspective, succession perspective, we feel very good about where we are.

So that was the summary of our detailed operational review and a look at all the drivers of our performance. Once again, based on this very detailed look, we are comfortable with our long-term targets, grow revenues in mid-single digits, deliver high-single digit EPS growth, grow free cash flow in line with net income and deliver attractive cash returns to our shareholders.

This performance will be balanced across our geographies and our categories. And as you can see, we plan to do a lot of things differently in 2012 and going forward. We're going to increase A&M spend by $500 million to $600 million, and total marketplace spend by $600 million to $700 million. We're going to focus our brands, reduce the numbers of agencies and strategic partnerships we have. We're going to focus on improving brand equity for our key brands, and you're going to start seeing stepped-up innovation levels in the marketplace.

We will deliver incremental productivity of over $500 million this year and a total of $1.5 billion of incremental productivity over the next 3 years. We will reduce CapEx to 4.5% of net revenue, which is about $300 million lower than it was in 2011 while still growing the top line.

We'll generate more than $6 billion of management operating cash flow and return $3.3 billion in dividends, which is about $100 million increase over 2011, and we'll repurchase at least $3 billion in shares, which is an increase of about $600 million over 2011. And we'll do all this while navigating through incremental commodity costs -- or additional commodity costs of $1.5 billion.

Finally, in terms of operating and reporting transparency, historically, we provided you data on Pepsi Americas Foods, Pepsi Americas Beverages Europe and EMEA. Going forward, we will provide additional data on global snacks and global beverages. And within that, we will provide you top line numbers volume revenue on our global nutrition business also.

So that's the comprehensive summary of our operating review, the findings, and what we're going to do differently going forward. With that, let me turn it over to Hugh Johnston to talk in detail about 2012 and go through all of the financial information. Thank you.

Hugh F. Johnston

Great. Thank you, Indra, and good morning, everyone. As discussed earlier, 2012 is a year of transition with EPS down 5% on a core constant-currency basis. As we compare 2012 to our high single-digit long-term growth targets, there are several key drivers for this gap. I'll cover them briefly here, and then we'll look at each individually.

First, we face another year of higher-than-normal commodity inflation driven by the lag effect of our forward-buying program. This negatively impacts our EPS growth by 9 points. Second, the extraordinary investments we are making in the marketplace, both A&M and to a lesser degree in racks and routes, drives another 8 points of EPS gap. To help offset this marketplace investment, we are, as Indra mentioned, embarking on a multi-year productivity effort, which is expected to deliver over $500 million in incremental productivity savings in 2012 for cumulative incremental productivity of $1.5 billion through 2014. This initiative is expected in 2012 to contribute 7 points of EPS growth.

Below-the-line pension cost will increase as a result of the lower discount rate we used to calculate pension expense. And finally, our net interest cost also rises. We increased our borrowings and term out debt in a low interest rate environment, and our tax rate will be slightly higher at 27%. The net impact of the latter 2 items is a reduction of 3 points. Note at this point, based on market consensus forecast, we anticipate FX to be a 3-point headwind in 2012.

Now I'd like to take a moment to go a little bit deeper on some of these. Overall, we are anticipating 7% commodity inflation for this year. Our commodity spend consists of 3 components: raw commodities, which we purchased via a systematic forward-buying program; raw commodities for which there is no active traded market; and then finally, cost our suppliers incur to convert raw commodities into ingredients and packaging materials.

On non-traded raw commodities, we will have moderate inflation of 4% this year. And on conversion costs, we are actually benefiting from 5% deflation as a result of value engineering and productivity efforts with our suppliers. But we are facing a steep 16% inflation in market trade and commodity purchases. Because we secure coverage in advance of the start of the year via our systematic forward-buying program, 35% of our commodity purchases were already locked by July 2011, more than 40% by September and almost 2/3 by the end of December 2011.

As a result, we are not fully benefiting from the recent declines in raw commodity prices yet. While this program proved to be very beneficial to us in the past 2 years and over a cumulative period, we are still ahead of the market. Our cost for traded commodities are unfavorable to the market in 2012 on a percentage basis. It's important to note though that we expect our actual prices to be at or below the market prices on many commodities, but the rate of inflation will be higher because of the different prior-year basis.

The commodity inflation is highest in the first quarter and mitigates as we move forward through the year as you would expect with the lagging effect. Regarding our productivity program, as indicated earlier, we expect to deliver $3 billion in savings over the next 3 years, which is double our historical productivity run rate. Our productivity program will touch virtually every aspect of our business, including manufacturing, distribution and SG&A.

Specifically, we are heightening our ability to execute best practice sharing across our organization, leveraging new technologies and processes across our entire cost structure and will increase yield and throughput and reduce waste throughout the value chain. In addition, we are consolidating a number of manufacturing warehouse and sales facilities, and we're implementing a more simplified organization structure with wider spans of control and fewer layers of management, which will enhance our cost competitiveness and drive more effective accountability.

The restructuring actions will have a onetime cost of about $910 million, of which about $750 million is cash. As mentioned earlier, overall below-the-line costs are a 3-point drag on EPS. Our pension costs are increasing by almost $100 million this year as a result of a decrease in the discount rates. This is after a $1 billion discretionary pretax contribution to the pension and retiree medical plans, which reduced the expense by $100 million.

In addition, our net interest costs are increasing by about $200 million as we term out debt to benefit from long-term low interest rates. Borrowing increases generally in line with cash, which sits internationally. All other corporate G&A costs are flat as reductions in corporate G&A are being redeployed to support the global productivity initiative.

Turning to capital allocation and cash return. We announced this morning that we will increase our dividend by 4% to $2.15 with the June dividend payment, and we intend to step up our share repurchase program to at least $3 billion in 2012. Simultaneously, we will term out debt, taking advantage of that low interest rate environment. This will increase our leverage, which we are comfortable with because we intend to limit both our number and size of tuck-in acquisitions and to do them only in emerging and developing markets.

Net, we expect to increase our borrowing, but again, it will only increase in line with our growth in cash. This cash is largely offshore and is, therefore, tax inefficient to repatriate. With this, despite a year of earnings decline, we expect to return about $6.3 billion to shareholders this year, up from $5.6 billion in 2011.

Turning to the portfolio review. I'm sure many of you focused on the lower-left quadrant of the matrix that Indra showed you earlier and have questions about how we will scorecard that. For these businesses, we expect them to hold their grow of share, begin to achieve profitable growth and improve their ROICs within a 12- to 18-month time frame. If they don't, we will seek structural solutions as an alternative, collaborations, JVs, refranchisings or divestitures are all on the table, all with the objective to improve PepsiCo's shareholder value creation.

Summarizing 2012, we're targeting EPS to decline by approximately 5% on a constant-currency basis. Based on current market consensus ForEx, this is a 3-point headwind resulting in an 8% decline in EPS on a USD basis. As you model out the quarters, please keep in mind that commodity inflation is steepest in the first quarter and consequently, we anticipate first quarter earnings to decline high-single digits.

We expect CapEx to be approximately $3 billion, a 10% reduction from our 2011 CapEx level. Management operating cash flow is targeted at about $6 billion, an amount similar to our 2011 management operating cash flow despite an earnings decline in 2012. And we have plans in place to return over $6 billion to shareholders through dividends and share repurchases.

Long term, as many of the headwinds we are experiencing in 2012 moderate and as our A&M investments take hold, we anticipate returning to our long-term targets of 6% to 7% core constant currency growth in division operating profit, core constant currency EPS growth in the high-single digits, CapEx investment of no more than 5% of net revenue and core management operating cash flow growing in line with net income on a rolling 3-year basis.

Now let's turn to how we'll measure progress on our performance scorecard. We will measure our performance along 8 key metrics, 4 of which relate to what we do to deliver results, and 4 of which reflect the results of what we do. Let's talk first about what we do or what I call our input metrics, which include brand strength, execution, cost and CapEx efficiency and innovation.

For brand strength, we expect brand equity on our top 12 global brands to improve year-over-year, and we expect A&M spend as a percentage of revenue to increase or stay flat after 2012. In terms of execution, we will track 2 key measures: inventory share and coincidence of purchase. These each have a strong correlation with sales growth and do so in a cost-efficient manner.

Cost and CapEx efficiency are critical to our ability to deliver profit and returns to shareholders. We are confident that our productivity programs in both P&L and CapEx investments will enable us to deliver on these targets.

Last, we'll measure the success of our innovation defined as new product sales as a percent of total PepsiCo sales. While we expect the first 3 metrics to deliver in line with our long-term target in 2012, we are not counting on an increase in innovation as a percentage of sales in 2012. For these metrics, we expect to share our performance with you on a semiannual basis, and we expect to perform against these targets beginning in 2012.

Obviously, we'll also measure our performance against key output metrics that are highly relevant to investors. The metrics are value share, EPS, ROIC and operating cash flow. Our guidance and performance targets are consistent with these long-term targets, and we'll continue to report to them -- to report them to you as we currently do. Because 2012 is a transition year, however, we expect to achieve only the value share targets in 2012. We believe that this scorecard is well-connected to both operating performance and shareholder value creation and will enable you to clearly understand our results.

With that, now I'll turn the meeting back over to Indra.

Indra K. Nooyi

Thank you, Hugh. Thanks to all of you for your attention this morning. And before we open it up for questions, let me just recap the key points we'd like you to takeaway this morning by returning to one of our earlier slides.

We're excited about the initiatives we shared with you this morning and look forward to sharing with you our progress as the year progresses. And as I said as I close my talk this morning, you should expect to see the following: a substantial increase in our brand support and focus, improvement in our brands' health, delivery of significant incremental cost productivity, greater efficiency in capital spending, strong cash flow generation and attractive cash returns to our shareholders through dividends and share repurchases.

Now as I turn it over to you for Q&A, and if I could just have John, Zein, Al and Saad join me here on the podium, and we will take questions from you, and then we'll toss it to our sector heads so that they, too, can share their thoughts with you. So with that, it's over to you. Yes? Go ahead.

Question-and-Answer Session

Unknown Analyst

Indra, how do you know this is enough? And I say that in the context particularly around the spend back so $500 million to $600 million A&M only gets you kind of halfway to where you were at the beginning part of this decade even if you pull out PB U.K. asset [PH] and Wimm-Bill-Dann. How do you know that's enough? And in particular, what does it tell us about the ROI of the overall business and the trend of the ROI in the overall business as you're spending more and more and more, you're doing more and more, but you're getting to the same number from a growth perspective. How should we feel about that?

Indra K. Nooyi

I'll make a couple or 3 comments, and I'm going to toss it to Al to talk about how they're reorienting the advertising spending especially -- you focus more on North American beverages, right? Let me start by saying to you that over the last 5 years, the A&M has not been cut. That's the interesting part of the whole North American beverage discussion. So the dollar amount has not been cut. The non-working A&M squeezed out the working A&M. That's the big issue. What you see is measured media. We look at total A&M in the North American beverage business, nothing has changed. The thing to be careful about Gatorade, for example, the working media that you see, the ads are a very small portion of Gatorade. A lot of Gatorade is more what they do with sideline presence and what they do with athletes and what they do to market the product to them. So you've got to look at the overall A&M bucket. Over the last 5 years, the single biggest trend is that we had non-working A&M squeezed out working A&M because inflation and contracts and we had too many agency relationships. And the second is that we supported too many brands. I mean, in North America, because we are a total beverage company with a large portfolio of non-carbon, carbonated brand, we supported too many brands. So the first thing they're doing is first, focusing our effort behind a few brands -- and Al's got a list of brands he's really going to focus on. And by shifting more non-working to working A&M, what you're going to see is that 15% to 20% increase in visible dollars that we're talking about is going to feel like hell of a lot more in North America. So that's the top line number. But that's not enough. If you don't support the A&M with innovation and execution, you can talk about the brands all you want, but you need news to drive incrementality, so that's why we're going to focus a lot more on innovation. And Al, maybe you can talk about some of the innovations the second point, and execution on the ground is going to really go up when we start tailoring assortments by store so we can actually get that incremental growth. Lastly, on total growth, the marketplace in North American Beverage business is only growing 1% in volume; and in value, maybe 3% to 4%. In the last 4 to 5 years, the new entrants in the pure plays have taken a lot of the growth and the big 2, 2.5, 3 have not really had as much of the growth as the pure plays. So we have to figure out how to be a pure play within our own company, and it's not for not having the innovation. We have had tons of innovation. We just kill it too fast, and this new growth ventures that Al is setting up now, mirroring what we've done with Frito-Lay will allow us to incubate these new products so that it doesn't always have to be a $50 million, $100 million case innovation the first year. We can actually start smaller and build up the business. So let me turn it to Al to give you his perspective. Al, it's all yours.

Albert P. Carey

Okay. Indra's mentioned already -- spent the money on many brands, not the 5 core brands. So this coming year, you'll see on Pepsi, Mountain Dew, Gatorade, Tropicana and Lipton, substantial increases, not the usual just double-digit increases in these campaigns. And the campaigns are not going to be just increases in media television, also digital is -- shows tremendous promise. I think not just digital but customer digital. Some of our customers are on the leading edge of digital shows some remarkable new ideas that we could probably tie into and drive business much more directly and focused to those consumers. So if we're looking at selling Gatorade to athletes or families that have young athletes, we can get to these consumers much more directly by using, let's say, the Safeway card and the digital approaches that they use. But let me go back on a couple of the key things that we're going to be working on at PepsiCo beverages North America. I don't believe -- my observation is the business is not broken. It needs to be -- I would describe it as a focus on the back to basics, and that means investment -- substantial investments in the top 5 brands. And then the other thing we need to do is significantly improve the innovation that we have going into the marketplace, both on healthy and core. So this year in 2012, you're going to see a substantial improvement in innovation, but the 2013 pipeline is the one that we really expect to see some really big gains. But this year as well, you'll see things like this that I would call not giant innovation, but we've worked with customers on this particular product right here, it's a 24 ounce can of Mountain Dew. Our initial test market, we blew out every can that we made, and it appeals not only to Mountain Dew users, but also to energy drink users. So if they normally pay $2.99 for a can like this, this will be a lot less. Then I'd call it mid-type of innovation like Pepsi NEXT, and Pepsi NEXT will have 60% less calories than a normal Pepsi, and

I'd ask you to try some of it on your way out. I think you'll find that it tastes exactly like a regular Pepsi. I'm a regular Pepsi drinker, and it really is the same. We've made a substantial progress on that product. And then big innovation is all-natural sweeteners, big breakthrough in fountain equipment. And those things are towards the end of this year and really into 2013. And we'll have the -- what I would call the proper investments against those brands. One last thing I'd mention, putting a local structure in place that allows us to get the most out of these big national ideas but also to capitalize on these granular opportunities that exist in the marketplace. Today, I believe we call too many of the plays out of the center, meaning in my group. We're going to have a structure that's announced very quickly here, where we'll have general managers in the marketplace. They will have regional resources for marketing, and we'll be able to work with our customers on things that are going on specifically in Los Angeles. I just don't think we're able to make these calls out of the center as good as the people who were down in the marketplace in the Californias, and in Texas and in those kinds of markets.

Indra K. Nooyi

And let me just add one last point. As I said to you in the opening comments, this is the first time we're going to have global management of big brands. I mean, it might seem unusual to you, but Pepsi was never managed as a global brand. It was managed in a much more fragmented way. Brad Jakeman, who joined us 6, 9 months ago is doing a fabulous job thinking about Pepsi as a global brand, and you'll start seeing the results of this global brand work in summer of this year. And so the leverage of all of this investment is what gives us confidence that -- at first step, hold share, start slowly moving this value share to pick it up. And then would be technology breakthrough, really start thinking about how to gain share. But the real important thing in all of this is to play in this market in a responsible way. I think this category has been played in interesting ways by the competitors, too much pricing action even when commodities have gone up. So it's very important that pricing is responsible, and that's what we've been trying to do in the last 6, 9 months. Go ahead.

Caroline S. Levy - Credit Agricole Securities (USA) Inc., Research Division

A couple of questions, one is on China. It's such a strategically important market for long-term growth. And having met with Tingyi over the last couple of years, a number of times, they've always said, "We don't think carbonated soft drinks are a good business in China." People like teas. People like this. So, there was -- I don't know if they've changed their tune, but it scares me that that's been their attitude in the past. So my question would be, I see the short-term benefit of getting losses of the income statement from the refranchising. But what are the measurements that you're putting in place to make sure that Tingyi doesn't do a blast to target all the volume benefit, but actually delivers over time in this critical market? And then a question for John. Just on the volume growth at Frito, which was the slowest it's been in the last, as I remember the 1%, what do you think it looks like over time and why?

Indra K. Nooyi

So, Saad, you want to take the Tingyi question because you meet with Chairman there on regular basis...

Saad Abdul-Latif

Yes, we're extremely very pleased about the alliance if approved by the Chinese government with Tingyi. The CSD category in China has been growing. And, in fact, in 2011 has grown faster than NCBs. And Tingyi and their portfolio, it doesn't have that. So our alliance with them actually is complementary. It will give us access to wide areas where we don't have production facilities with them. So we have planned our CSD business there. It's an alliance between the #1 ready-to-drink tea, the #1 water, the #1 cola and the #1 flavor. So I think now we've set and transformed, if approved by the Chinese government, this alliance, our Beverage business on trajectory for growth for many, many years to come. How are we going to measure the performance of Tingyi going forward? We have a joint planning with them. We operate as we operate with the franchise there, bottler. Every year, we set up the annual operating plan. We measure it quarterly. We adjust where we need to adjust, and then so forth. Most of our people running our business will be working with Tingyi on this, so there is no change. So we're not like giving our business with these people. Actually, we're moving a lot of our people in operation to Tingyi. The beauty about this alliance is we get access to distribution points, we get access to wide areas where we've never existed before. There was a structural disadvantage on operating plants. We had 22, Coke have 34. With this now, probably we will be set for good, for sustainable growth. And once approved, we will be the #1, actually, beverage company with Tingyi overnight.

Indra K. Nooyi

Caroline, that's a great question. And when we went into the alliance with Tingyi, I mean, we've all had a chance to meet with Chairman Wei, who we adore. I want to tell you, that was the thing we worried about the most. And what we found that was refreshing was Chairman Wei actually -- I don't know what he told you, but he sought us as much as we sought him. He wanted this business because he realized that this business had more price incrementality than tea where there's so much local competition. So this actually gives him some insulation. PepsiCo also provides him a lot of best practice sharing from all of the stuff we do around the world, whether it's marketplace investments, how we grow the business, how we put in coolers, how we put in the route. There's a lot of sharing of knowledge and know-how. And he genuinely believed that carbonated soft drinks will actually grow as a percentage of sales in China, may not be to the U.S. level, but it will grow. It's about 20% today, it will grow. So this was a mutually sought after marriage, and we feel very good about the prospects for this business. So now let me toss it to John to talk about the...

John C. Compton

So let me -- 2 weeks ago, I gave a big speech to an industry conference of the Food Marketing Institute, and I was challenging the group on how to rethink growth because if you look at all food and beverage in the fourth quarter of 2011, volume declined 1.5%. Revenues grew 5%, but there was almost 7 points of pricing behind that 5% revenue growth. So I look at Frito-Lay North America and say 1% volume growth in the quarter compared to everyone else declining 1.5% I think is pretty good. And the algorithm for the quarter of a 1 7 10, I would say, is world-class. Ongoing when we took, as you know, almost 6 points of pricing and drove 1% volume growth in that business. Ongoing we said for Frito-Lay, is a low single-digit volume growth company. We expect a positive spread between volume and revenue and a positive spread between revenue and profit, and that's our expectation. We're very proud of Frito-Lay.

Indra K. Nooyi

Judy?

Judy E. Hong - Goldman Sachs Group Inc., Research Division

Just in terms of commodities, the $1.5 billion step up in 2012, a little bit more color just in terms of maybe key inputs or by-product categories where you're seeing the most pressure? And then as related to that, the inflation impact for 2012 that you won't be able to cover price -- with pricing just seems a little bit larger. So is it really a consumer issue? Is it -- is there an element of a brand equity issue that you're really trying to address here? And then how much is also driven by perhaps maybe your hedge position being a little bit of a disadvantage versus your competitors?

Indra K. Nooyi

Hugh, go ahead.

Hugh F. Johnston

Sure. So in terms of the key commodities, obviously, we tend not to talk about specific commodity pricing for obvious reasons. That's information we'd rather not share with competitors. What I would say to though, Judy, is it is very much driven by the lagging effect of the timing of purchases. We do think based on the pricing that we have, and we obviously have knowledge of what the marketplace prices are with 1 or 2 notable exceptions, the pricing that we're paying is better than what's in the market or equal to what's in the market right now. Relative to competition hedging strategies, that's hard for me to speculate on. Obviously, it's just difficult to say what competition is doing. We've seen, obviously, a number of CPGs come out and start to share guidance. And I think we've seen people talk about anything from low- to mid-single digits. Obviously, the number that we shared is a notch above that. I guess generally speaking, the more you're exposed to agro, you probably have a bit more commodity inflation as opposed to being exposed more to energy. So the food and beverage company is probably a little bit higher than the HPCs. And the longer you tend to hedge, and we've been pretty open about the fact that we tend to work about 9 months out, the more the effect will hit in 2012.

Indra K. Nooyi

In terms of pricing behind the brands, we actually lead pricing in many parts of even North America. None of our snack businesses are an issue. But in beverages, we've been trying to take pricing up. It is a very competitive market out there. And if the market place behaves in a sensible way based on commodities, I think the pricing will go up. This has nothing to do with our brand. One example I'll give you is in the cold channel, and Al you can talk about it. We've taken pricing up and it stuck. And our cold channel volume is up significantly.

Albert P. Carey

Yes. Our cold channel business right now for probably the last 12 weeks is very solid, and a good indicator of the brand strength as we put some programs in place on Mountain Dew and Pepsi. But the pricing in the marketplace even on large format is rational right now, which is a good thing for all of us.

Indra K. Nooyi

Let me take a question here and then come there.

Unknown Analyst

Indra, could you talk about why you have a line of sight now and it's the right time to reset? So why do you have it now? Why didn't you have it 3 years ago? Is it due to the macro, or can you just explain that a little further? I have a follow up.

Indra K. Nooyi

Good question, and I tell you, 2007, '08 -- let me -- just typically, when new CEOs come, they just like to sort of throw everything in the kitchen sink and reset. I was looking at the portfolio and saying, "Hey, you can reset all you want, but developed markets are getting a little soft." We don't have much emerging and developing markets in my portfolio. And sometimes, when you have a problem in the portfolio overall, you take a gigantic reset. The issues that I was facing at that time required transformation, which was going to take several years. I'll be honest with you. Had we not had this macroeconomic meltdown and this commodity cost volatility, this whole reset would have happened earlier, and the transformation could have happened earlier. The problem is, we faced the worst crisis, and we had to reset in the middle of this crisis. The other problem was anytime we wanted a reset for North American beverages, there was this giant sucking sound where the bottling systems took out all of the extra funding and demanded bottle funding, okay? And so we had to address that structural problem we had with the bottling systems so that we didn't have 2 companies fighting over a shrinking profit or a flat profit pool. So I had to wait for that bottling system integration to happen, okay? And so finished the bottling system integration 2010; in 2011, brought the management of all of it under one person, Al Carey, and said okay, now is the time to go off and make the reset happen because now we know that every dollar of shareholders' money we put behind the reset will actually yield results as opposed to you put the money -- and as I said, every CEO gets an opportunity once in a decade to make a reset. It's like running a car race. You got to take a pit stop at some point, and you don't get too many chances to take a pit stop and then still win the race. We want to win the race. So this was the pit stop, and we had to pick it very strategically. So that's what we did. Talked through about it every year, I'll be honest with you.

Unknown Analyst

Got you. And then Hugh can you just talk about volume was a little tight into this year and maybe the long term because I don't think it was mentioned in any of the slides.

Indra K. Nooyi

Revenue was at mid-single digits this year, too.

Hugh F. Johnston

Yes, we said mid-single on revenue.

Unknown Analyst

And then no volume?

Hugh F. Johnston

Yes, revenue is probably the more relevant thing at this point.

Indra K. Nooyi

Because of the pricing, yes. Can I take a question, then come to you?

Unknown Analyst

Yes.

Indra K. Nooyi

A question there, please.

Unknown Analyst

Yes, Indra, 2 questions. One on North America beverages. You talked about the opportunity through structural change to jump shift ROIC. Could you elaborate on that comment? Are you rethinking about how you're thinking about wholly owning the bottling assets for the long term? What did you mean by that comment is question one. And then question two is, as you think about the larger organization, the whole of PepsiCo and as the Chairman of the company and its CEO, how do you think about a, kind of internal versus external candidates for key leadership roles; and b, how are you thinking about those 2 roles being occupied by one person?

Indra K. Nooyi

Let me first turn to Hugh on the structural issue.

Hugh F. Johnston

Sure. Well, as we laid out in the scorecard, I think we're open about how we are going to look at the business. Regarding alternatives to increased returns, first of all, from an operating perspective, we're obviously going to be looking at capital investments with extreme scrutiny when the business is challenged from a growth perspective. Working capital, the same. We do think that there are lots of opportunities to manage inventory more tightly, and as Indra said, to reduce days both on the payables and -- or on the receivable side and increase on the payable side. From a structural alternative perspective, I think it's fair to say that there's a variety of items on the table. And we're going to look at each of the options and determine what makes sense if we don't see internal operating performance of the business and the returns of the business improve over time. That can be anything from collaborations right through to all variety of other options as well.

Indra K. Nooyi

Let me talk to you about organization. We do a great job developing our internal talent for succession at the senior-most level. You see an outstanding group of leaders here, who've all grown up in the PepsiCo system doing outstanding job, but I think the mark of a good company is to be able to bring in external talent when needed at the right level, whatever the level of the company is, if the belief of the leadership of the company is that this external talent will significantly improve the thinking of the company and help us position ourselves to perform in a new and changing environment. I think all of us are in an extraordinary period of change. Many of the skills we had over the -- that we learned over the last 10 or 15 years don't apply in the future. So very often, you have to buy some of this talent to just improve the overall knowledge base in the company. I mean, I'll give you an example, Enderson Guimaraes. Where are you, Enderson? Enderson came to us from Electrolux, and he was running a big piece of Electrolux. Now he's running global operations for PepsiCo. The thinking that Enderson brings to us challenges the way we do things in PepsiCo, which is great because it makes us all a better company, a better group of leaders. So I think any good company, the mark of a great company is to be willing, to be open to bringing an external talent when needed, assimilating them, learning from them and then getting better as an overall company. On the last thing on the Chairman and CEO roles, look, I've been Chairman and CEO, and I've seen the benefits of being both the Chairman and CEO being able to manage the board, external constituencies and be able to run the company. If you have a Chairman and CEO that runs a very flat organization, 20 reports, and they're not of the caliber of being Chairman and CEO themselves, then you have a problem. I have the unusual benefit of having 4 sector heads who each of them can be Chairman and CEO in their own right and a phenomenal CFO. So I look at my team and say, "I work for them, they are all Chairman and CEOs in their own way." And so I think in PepsiCo, this role combination actually works. I promised to come here. Yes, right here on the first row.

Unknown Analyst

Indra, can you discuss your level of confidence that you will get returns behind this marketing spending in beverages? And also, as we look at 2013 and '14, I'm assuming that your EPS growth will be in line with your long-term goals. Why would that be if you're getting a return on the marketing investment in 2012 versus depressing the earnings base, and you've also got incremental cost cutting in those years?

Indra K. Nooyi

Your question is why isn't it higher in 2013?

Unknown Analyst

Yes.

Indra K. Nooyi

Look, what we've given you is the long-term algorithm. We said high-single digit. We'll come to 2013 guidance as we get to the early part of 2013. Let's see what the environment is like, what all of the cost situation looks like. Why do we believe that we'll get a return on investment? I'm going to use Pepsi Max as an example. We invested heavily behind Pepsi Max and the restaging of Pepsi Max last year and this year. Pepsi Max is up more than 50% in volume between last year and this year. Now it's off a small base, but it's up 50%, and it's almost one share of the carbonated soft drink business. So you can't run 20 brands and try to invest behind all of them and expect them to cut through the clutter. But if you take a focus group of brands, that actually belong in different aisles in store, look at the brands that Al talked about. You've got Pepsi, Dew in the CSD aisle. You've got Gatorade in the sports aisle. You've got Tropicana sitting in the refrigerated aisle. If you invest behind each of these sitting in different parts of the store and put the appropriate media rates, our testing shows that you can actually get growth in each of these brands. And that's the model we've been using. We have tested that, and we believe we will get a return on it, okay. I have to go to a question there. Yes, go ahead.

Unknown Analyst

Two questions. One, just implied in your long-term model, is there an expectation that gross margins will expand over time, or is all the leverage going to be below the gross profit line?

Indra K. Nooyi

Hugh?

Hugh F. Johnston

To be perfectly candid, a little tough to say given commodities have been so volatile. We will clearly see margins below the line improve where the impact of lower cost below the line. NVA, which is the non-commodity portion of cost of goods sold, we clearly expect to see productivity there. How commodities shakeout and how that balances out to me is very much an open question. Under normal circumstances, yes, I would expect to see gross margin improvement as well, but...

Unknown Analyst

So you'd expect to be able to start to -- or be able over time to cover some level of commodity inflation with pricing, I guess, is my -- did the company loss pricing power, is what I'm asking.

Hugh F. Johnston

Yes. The way I think about it is, when I think about commodities, I tend to think about them longer term growing roughly in line with global GDP, and so somewhere in 3%, 3.5% range. At that level, certainly, we would expect to be able to price the cover. What happens in any individual year, tough to ascertain further out than a few months before the year begins.

Indra K. Nooyi

The thing to be careful about just, say, on pricing, I'd be careful about assuming that the brands don't have pricing power. I'll tell you why because this is a tough economy. It's not that the brands don't have pricing power. Consumers don't have the buying power. Okay, if you had a normal year, we would be looking at a very different dynamic. In countries where consumers have buying power, the emerging market of EMEA, Asia and Middle East, we have been able to price. We are getting the value -- volume growth and the value growth, not an issue. The last thing I'd tell you is on gross margins. As the mix of countries changes and as we get more growth in emerging and developing markets, which is what all of us should want because that drives long-term growth, sometimes the gross margin picture starts looking muddy because in those markets, we're still in the early stages so the gross margin is a little bit lower and then they ramp up. So when you have a large company and you're looking at a combination of different businesses, categories, countries with different dynamics and a combination of franchise and operating business, there's not a linear relationship on the gross margin. So it requires explanation. And we'll provide it to you in our quarterly calls. Okay, I'll take a question on this side. Is there a question on this side? No? Go ahead. I'll come back again for you.

Unknown Analyst

Hugh, thank you so much for your commentary around balancing your leverage increase in tuck-in acquisitions. If I could just dig in to that a little bit. When you look at your short-term borrowings and your access to commercial paper, do you see a need to maintain Tier 1 CP access, or could you look for increased balance sheet flexibility by moving towards Tier 2?

Hugh F. Johnston

It's a good question. At this point, in terms of commenting on specific ratings, it would probably be inappropriate for me to do that right now. I've -- we've shared with you what our plans are and what our leverage roughly looks like. Beyond that, I probably rather not get into it. I wouldn't necessarily take anything off the table.

Indra K. Nooyi

A question there. One back, and then you, John.

Unknown Analyst

Yes, I just wanted to ask you, you have an increased budget for advertising. Just wanted to know which sectors are you targeting? Are you moving more or less towards the Internet, print or TV? And also, do you have any hand in the Olympics with your Gatorade drinks and so forth?

Indra K. Nooyi

I mean, the advertising spending is broad-based. As Al mentioned, it's a 360 degree activation. So each of those elements you talked about will get an increase in advertising spending. And no, we are not in the Olympics. We were the proud sponsors of the NFL and the outstanding Super Bowl we just witnessed where we had phenomenal results with our advertising campaign. And that's what we're doing.

Hugh F. Johnston

And I would not say, we're not in the Olympics, but we have 3 substantial campaigns this summer. One on Gatorade, one on Pepsi and Mountain Dew.

Indra K. Nooyi

Yes, John?

Unknown Analyst

So you talked about one of the targets that you are going to keep for 2012. You had those targets when you talked about the bottom the page. One of them was value share growth. So going back to Dara's Question, I guess, historically, advertising takes a little bit of time to seed. And so can you talk about what you see as the key drivers of those values -- of that value share growth? So advertising takes a little time seed, the innovation is a little back-end loaded. Taking less price relative to raw material inflation sounds like we could actually see price gaps widening from that standpoint. So how much of that short-term value share growth do you think comes from potentially widening of price point gaps?

Indra K. Nooyi

Hugh?

Hugh F. Johnston

John, from that standpoint, we -- and let me focus more on North America because that's sort of the more logical area of emphasis. We really did get our pricing in place in the fourth quarter, particularly in the Beverage business. And we were comfortable with where we are right now, and I think we'd expect to see that stay roughly where it is right now.

Indra K. Nooyi

Any other question this time? Yes, go ahead, Damian.

Damian Witkowski - Gabelli & Company, Inc.

Indra, just a 2-part question. On -- just give us your global perspective in terms of what's happening around the globe currently, what do you think of each market in terms of is it getting better or worse? And then I don't know if I missed it, but if I look at your goal for Good-for-You, the $30 billion by 2020, is that still a target? And since you sort of said no big acquisitions, do you think that you can still get there with organic or mostly organic growth?

Indra K. Nooyi

I'm going to answer that question, and then what I'm going to do, Damian, is give you a gift. I'm going to have Saad, Zein talk about their regions, and then I'm going to have John and Al talk about Latin America because they also cover Latin America. Currently, our Good-for-You portfolio is about $14 billion in PepsiCo. That market category is growing between 89% globally. If we just keep growing at that rate between now and 2020, we will be a $30 billion business. So we don't need any extraordinary intervention to grow that business. What we need to do is to invest, to grow in those markets we are in and go into new markets with just our Quaker, Tropicana, Gatorade and where appropriate, our Naked Juice brands. So we're not looking at any dramatic expansion through acquisitions at this point. So let me turn -- Zein, let me turn it to you to talk about what you're seeing in Europe, especially Western Europe, Eastern Europe, Southern. Give us your perspective.

Zein Abdalla

Yes, well, I mean, clearly, you all read the news. Europe is going through a lot of challenges. And you almost see either issues unfold by the week, or some issues just repeat by the week. One of the, I think, wonderful things about our business in Europe is it's very finely balanced between the East and the West. We're pretty evenly split between the emerging markets of Europe and the developed markets of Europe. And what that tends to do for us is in good times, allows us to accelerate growth and move ahead of the pack. And obviously, in more challenging times when the developed markets tend to be more stable, it allows us to hedge against the challenges. So even in a very difficult year like 2011, we still delivered very, very solid top line growth. I would say looking back 2011, obviously, the developed markets are more stable and performed better. Russia had a particular challenge. You'll have heard that from many food and beverage companies, from many FMCG companies, not so much drive by their economy where they actually had good GDP growth, but much more driven by the excessive inflation in the country because they suffered both from the global inflation but also particularly in Russia a very severe crop shortage in 2010 as a result of a very hot summer that played out into basic commodities, hurt consumers really in terms of their basic, basic purchases. And you saw a decline in disposable incomes. Now we do see that normalizing in Russia, and we do see the market coming back. And we will see a stronger performance in Russia in 2012. Now again having said that, we're very pleased with the top line performance around Russia growing double digits in 2011. And again, the wonderful hedging of that business across the multiple categories in which we compete. Following the Wimm-Bill-Dann acquisition and the integration, we're nearly 12 months into that now and the integration of it into our business. I can tell you, we've gone in 12 months from essentially serving consumers between about 12:00 midday to about 6:00 in the evening. They're now serving them from the moment they wake up to actually, the moment before they go to sleep. And the traditional drink in Russia before you go to bed is a glass of Kefir, which is a fermented yogurt drink. It's a digestive. It helps you sleep, and that's actually one of the fastest-growing beverage categories. When you talk about snacking, and we all tend to think about nutrition versus Fun-for-You, well, one of the fastest-growing snacking areas in many of these emerging markets is as the meals deconstruct and as people move from formal breakfast at home before they leave home, to needing that midmorning snack or that second breakfast. And again, products like value-added dairy play very, very strongly in that segment. So yes, I mean, a challenging macroeconomic picture in Europe, challenging consumer picture. But we've always, I think, said to you that the good news is people have to eat and drink. The really good news is we have a balanced portfolio, both geographically and in terms of the categories and the consumer needs and occasions that we service.

Indra K. Nooyi

Saad?

Saad Abdul-Latif

Yes. Well, EMEA is a vast territory, as you know, and I have three-quarters of the world's population, and...

Indra K. Nooyi

Then we want 3 quarters of the profits of the company come from your group.

Saad Abdul-Latif

We're working towards that. I'll tell you, we called engine for growth for PepsiCo for a reason. First of all, the economies are growing, where China and India they're growing at high single-digits GDP. The population is young, and the per capita consumption of both snacks and beverages is a fraction of the developed world. So we have a huge runway to grow in both businesses, and we are poised to capture that growth. We have outstanding businesses in beverages and in snacks, and I'll just tour around the area with you area by area. So if we take the Middle East, we are the overwhelming choice of consumers there in beverages and in snacks. But that's been happening lately in the Middle East while it would set us back a little bit for a year or 2. However, for the long term, it's great because it will bring a lot of transparency and governance and it will bring a lot of employment at greater stage to our businesses. And we are very well positioned to capture that growth. India has been great. We have fantastic businesses in beverages and in snacks. In fact, in 2011, we out grew our competitor by 6, 7 factor points in LRB. Our snacks business is -- close to 100,000 tons [ph] and then doing great. And we're capturing all the growth of the GDP. It slowed a little bit down, but not at the level that really worried us. There is a lot of consumers coming in with purchasing power into that as in China. In China, our snacks business is doing great. We are growing in high, high teens. And in the beverages, when the government approves the alliance with Tingyi, we have really set our beverage business on sustainable growth path. As I said earlier, we’re aligned with the #1 tea and the #1 water. We're the #1 cola and #1 flavor. So coming together, we put that business on a trajectory to growth. And with snacks, it's a very fragmented market. And we are very well poised with the capability of people that we have there to grow. Asia-Pacific is the mixture of countries there we have developed such as Australia. Like the other developed world, there have seen some challenges there, but we are managing these challenges and actually, we are growing on the snacks business. And we have a lot of emerging markets that we are doing extremely well, such as Vietnam where, actually, we are the choice of consumer there for both snacks and beverages. Pakistan, which is part of the Asia-Pacific there, is also growing. So overall, we have the great businesses in foods and beverages. The economies are growing. The population is young, and we are very well poised to capture that growth for the future.

Indra K. Nooyi

John, can you talk about Latin America, but stay with the macroeconomic...

John C. Compton

Yes, Latin America remains 3% to 4% GDP growth. Obviously, that's driven by Mexico and Brazil. Mexico for the year was around 3%. Brazil slowed some, but I think as you look forward, you've got to believe that, that economy is going to continue to grow 4%, 5%, maybe 6% going forward with the Olympics and the World Cup coming there. And our business collectively grew volume about 5% during the year, so strong. And in Brazil, our snack business was up 8%, and I think it's -- to Indra's point about the dis-synergies of the 2, it's one of our best markets with the Power of One where we leverage the Frito-Lay's system to distribute many of the beverage brands. So very optimistic about Latin America.

Indra K. Nooyi

Yes?

Eric R. Katzman - Deutsche Bank AG, Research Division

Indra, 2 questions. One, I didn't hear a lot about mix on a consolidated basis. I think you touched on the fact that emerging markets are in negative to mix, but if you're no longer doing as much M&A, I would assume that's no longer going to be as much of a drag. And if you're focusing on the top 12 global brands, I assume they typically have a higher-than-average mix benefit. So maybe you could touch on those, and then I'll follow up.

Indra K. Nooyi

Yes. Mix, I think, our expectations again depends on how the economies evolve, Eric. But right now, emerging markets -- emerging and developing markets about 35% of the revenue of PepsiCo. We think it'll get to 50% by the end of the decade, okay. That's the range. And it takes that long only because our developed markets business is also growing, okay. So that's how we think it will evolve. The good news is, in emerging and developing markets, once they get to a certain scale, their margins escalate quite fast. The best example is Sabritas in Mexico. It's a developing market. But if you look at the margins we get in our Sabritas business, it's very attractive. And so because we have scale, we are the largest salty-snack player there. So I think it's a couple of dynamics. One, we'll keep moving the emerging and developing markets up, get it to half-and-half and there should be even more skewed to emerging and developing markets based on the world population. But let's start with 50-50. And then, hopefully, sometime around 2015, the profit acceleration from emerging markets will start picking up even more because the investments to build scale now are returns from the scale investments. So I hope that change will happen.

Eric R. Katzman - Deutsche Bank AG, Research Division

And then in looking at that 4-quad grid that you put up, so basically, in the top left quadrant, it was 74% to the business and the other 26% had issues one way or the other. And I'm kind of wanting to think about that like -- or how should we think about that relative to the Power of One? Because it seem like the top-left quadrant was what really benefited from Power of One, whereas the others were more difficult to kind of see where that -- where the benefit comes in there. And then to the extent that you get a 1% lift from the Power of One quantified, I guess, is like $120 million in sales, I mean, you're talking relative to a business that's got $60 billion, $70 billion of sales. So how is that like incremental?

Indra K. Nooyi

So Eric, the Power of One increment we're talking about in North America, all right, that number was a North American coincidence number increasing about 1%. Believe me, our normal businesses grow. Frito-Lay grows, North American beverage grows. Over and above that, if we can get an additional $120 million sales, 2 or 3 points from that in North America, that's a bonanza. I mean, to get $300 million, $400 million from an over-the-top co-merchandising activity, co-promotion activity is gigantic for an overall food and beverage business market that's not growing as robustly as it used to grow. I have looked at the portfolio differently. I actually -- when putting it together, I looked at it very carefully, the businesses on the lower-left quadrant, okay, some of the emerging market snack businesses, they're only there because we don't have the scale as yet. They're going to use the

Beverage business to plus up their scale. They'll quickly move into the top-left quadrant, okay. But we need to make sure that we manage that business to drive the growth, make sure that we leverage the Beverage business to drive the growth, get the right people, and we have to do that. That's why we put it there, honestly. The -- some of the emerging market Beverage business, we've done the Pareto. We have looked at each of these businesses and said, "Do we have an operational line of sight to get to the top quadrant, or do we have to consider structural option that is refranchising into a well-capitalized bottler, who has a reason to refranchised?" And let me speak to that a little bit. In the past, one of the mistakes we made as a company, I'll go back, when we gave Mexico, Russia to PBG, all right, we gave it to them because we felt they needed a growth market. Well one of the big lessons, Eric, was that you give a growth market, which is not the whole market, to a bottler only they have reason to combine with something else they have and get scale. You just don't throw a growth markets to them, okay. And that's why the whole international experiment of PBG wasn't wildly successful. So when we think about refranchising some of these emerging market Beverage businesses, we have to find a bottler who has other businesses so that they can leverage the scale like AmBev in Brazil was a great example. And we have partners like that in Asia-Pacific. I look at our Japanese bottlers who are absolute terrific partners, taking them to other parts of Asia-Pacific. I think there are lots of opportunities there to think about how to move emerging market Beverage businesses to the top box. The biggest elephant there is North American DSD in that bottom box. If commodity inflation wasn't prevalent, we wouldn't have put it in that bottom box because margins for that business normally are in the teens. It shouldn't have been a problem at all. And then we bought the bottlers back, I mean, we were thrilled at the synergies and what we can do. What we need to navigate through now is how do you manage a Beverage business, which is not growing too much, but not a commodity inflation? How do you reset that whole business? And if you can't reset it through a technology breakthrough, through a different way of operating it, through innovation, through brand building, then you have to think about structural options. And that's what we're going through. So what I would suggest is, just focus on the percentage of profitability from North American DSD beverage that belongs in that box. The rest of it will take care of itself because of the growth and the way we are managing it today, okay. Caroline, I think we have to shut it down, but one last question. Go ahead.

Caroline S. Levy - Credit Agricole Securities (USA) Inc., Research Division

This is just for Al.

Indra K. Nooyi

Make it a good one.

Caroline S. Levy - Credit Agricole Securities (USA) Inc., Research Division

It will be -- well, a good 2 for Al, or maybe both for Al. On feet on the street, you've got a lot of layoffs coming. How do you feel about the capability of the Pepsi system right now? Do you need more people rather than less? And the other is, do you think you should be doing more targeted Hispanic marketing given the growth rate in consumption of beverages by that consumer group?

Albert P. Carey

Now those are good questions. I -- let me just say, with the layoffs that will occur at Pepsi North America, very few will be at the front line. Most will be focused on middle and above management. So I'm not worried about this feet on the street. But as time goes on, there are a few gaps in service and those are being taken care of, I believe, in customer service just like at the Frito-Lay system. So I feel very good where we are there. On the Hispanic opportunity, I think probably more than 60% of the growth in the category is going to come from the Hispanic consumer, and I have seen some estimates that are quite a bit higher than that. And this whole local campaign that we're putting together in our local region markets, very focused on that as opportunities come up in the Texas, Florida, California market. And actually, that opportunity is becoming bigger in almost every city, not just in those Southwest cities that we typically talk about.

Indra K. Nooyi

Thank you, Caroline. So let me just close by saying thank you again to all of you for coming to our meeting this morning, and thank you for your attention over the past couple of hours. We look forward to seeing a lot of you over the next few weeks, and certainly reconnecting with all of you at CAGNY later this month. But as you leave, I just want you to take a picture of PepsiCo back with you. $66 billion of revenue, 16% operating margin, 17% net return on invested capital, 31% return on equity, a prolific cash generator and a company with 22 brands, each one generating over $1 billion in retail sales, and a company with terrific people and great growth prospects. So with that, thank you for your time and hope to reconnect with you soon. Thank you.