Good morning, and welcome to PepsiCo's Third Quarter 2011 Earnings Conference Call. [Operator Instructions] Today's call is being recorded and will be archived at www.pepsico.com. It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield

Thank you, operator. With me today are Indra Nooyi, PepsiCo's Chairman and CEO; Hugh Johnston, PepsiCo's CFO; John Compton, PepsiCo Americas Foods CEO; and Zein Abdalla, CEO of PepsiCo Europe. Indra will lead off today's call with a review of our overall performance. Hugh will cover the financials and our balance of year outlook, and then we'll move on to Q&A.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements, including statements regarding 2011 guidance based on currently available information, and our actual results could differ materially from those predicted in such forward-looking statements.

Statements made on this conference call should be considered together with the cautionary statements and other information contained in today's earnings release and in our most recent periodic reports filed with the SEC. To find disclosures and reconciliations of non-GAAP measures that we may use when discussing PepsiCo's financial results, please refer to the Investors section of PepsiCo's website under the Investor Presentations tab.

Now it's my pleasure to introduce Indra Nooyi.

Indra K. Nooyi

Thank you, Jamie, and good morning, everyone. This morning, I'd like to give you my perspective on our third quarter performance and share with you my thoughts on our progress against our key priorities. So let me start with our performance in the quarter. We grew global volume in both snacks and beverages, which, combined with strong pricing, drove net revenue growth of 9%, excluding Wimm-Bill-Dann. Our global nutrition portfolio, which is a subset of our snacks and beverage business, grew revenues 8%, excluding acquisitions. Core division profit was up 6%, and core EPS was up 7%. We are encouraged by these volume and revenue gains. We implemented incremental pricing actions in the quarter as planned, and the net pricing and volumes were in line with our expectations.

As a company, we remain committed to our 5 strategic imperatives. So let me review our performance against each of them, starting with snacks. Global snacks volume rose 8%, and excluding Wimm-Bill-Dann, revenue increased 12% with steady growth coming from our larger, more developed markets and even faster growth in emerging markets. In our largest snack business, Frito-Lay North America, we delivered 4% revenue growth and 6% operating profit growth on a 1% volume gain. We achieved positive price realization, largely as a result of the pricing actions we implemented, and we are pleased with the consumer response. It's a testament to the strength of Frito-Lay's brands and product portfolio and to the organization's ability to execute.

In fact, we delivered top line growth in most of our largest snack brands. Lay's, Doritos, Cheetos and Ruffles each posted solid revenue growth, driven by strong core innovation. And our growth in our potato chips business, in particular, is worth a comment. This segment grew net revenue mid-single digits on the strength of our Ruffles Bold flavors sub-line and Lay's Kettle innovation. Lay's Kettle revenue was up over 20% in the quarter, and year-to-date, we outperformed all other kettle competitors in both volume and value share growth. Our performance across channels is well balanced, with growth both in retail and food service channels.

Within retail, small format performance was especially good with mid-single digit volume and revenue growth in our single-serve packages. Our growth in C&G has been driven by innovation, where we have 6 of the top 7 new food items in the channel. I'm proud to note Frito-Lay's 50th anniversary in business. The company was founded in 1961 through the merger of the Frito Company and the H.W. Lay Company (sic) [H.W. Lay & Company]. At the time, we had 4 brands with combined sales of just over $100 million. Today, we've grown to be a $30 billion global leader in snacks with 7 billion-dollar snack brands and the #1 global food brand, Lay's. So we're very proud of this business.

Turning to international snacks. We increased snacks volume in 8 of our top 10 international snack markets and delivered double-digit revenue growth in 19 of our top 20 snack markets, with especially strong performance in emerging markets. Specifically in the quarter, China snacks volume grew 31%. India grew 26%. Saudi Arabia grew 24%. Egypt was up 15%, and Turkey grew 22%. And in Russia, excluding the Wimm-Bill-Dann impact, snacks revenue has grown more than 70% over the past 2 years. It's clear that innovation is fueling our international snack growth. For example, in the United Kingdom, we've had the biggest category launch in 10 years behind Walkers Crinkles, a savory, rich potato chip, which has already achieved 25% household penetration.

In Turkey, our new products include Lay's olive oil and Ruffles Burger King flavor, which is part of a broad innovation effort to drive incremental sales through broader variety. And in China, we've expanded our Lay's brand portfolio by launching a new multigrain snack line in popular local flavors like chili pecan and spring onion. So I think we've delivered good results against our goal to build and expand our macro snacks portfolio.

Let me turn now to global beverages. We delivered 4% volume growth and, excluding Wimm-Bill-Dann, 6% revenue growth. We achieved strong net price realization, largely through pricing actions to partially offset commodity inflation. Top line growth was well balanced across markets. We achieved volume and revenue growth in both our developed markets and emerging markets. Emerging markets growth continues to be generally strong, as we drive both penetration frequency through investments in our go-to-market systems and a focus on providing affordable options for consumers.

Across many of our emerging markets, we saw double-digit beverage volume gains. Just to mention a few, India grew volume 19%, Turkey grew 16%, Saudi Arabia grew 12%. And in China, we delivered double-digit revenue growth and very strong unit growth behind our introduction of a value-oriented 500 ml package, which largely replaced our 600 ml offering in that market. And our developed markets as a group also achieved steady volume and revenue growth in beverages.

So let me comment briefly on North America, where we are making good progress on a number of our highest priorities. First, we gained LRB volume share in the United States in the quarter, and we remained the LRB share leader in measured channels. Second, we've largely completed the integration of PBG and PAS into PepsiCo. We've achieved synergies above our original targets and ahead of schedule. Importantly, we have not had any disruptions to the business as a result of the integration. Third, our strategic restages of Gatorade and Tropicana have shown good results, and the performance of these 2 key trademarks gives us confidence that we're moving in the right direction.

Let me talk of Tropicana. Two key points: we've completed our national introduction of the carafe packaging that our consumers prefer, and our low-calorie natural-sweetened Trop50 line continues to perform exceedingly well. Based on the strong customer and consumer response to Trop50, we’ve expanded the line to include apple, lemonade, pomegranate, blueberry, pineapple mango and raspberry lemonade. The Trop50 line grew volume 50% in the quarter, and that's on top of the 37% growth we had in the third quarter last year. We are selling everything we can make, and that's a good challenge for us to meet.

Gatorade continues to perform very well with volume up 9% in the quarter, lapping 15% growth last year. And all elements of the Gatorade plan are contributing to growth. Our refocus on the core athlete consumer, the brand restage to G, the introduction of G Series, our expansion to the FIT and Pro line, and our transition of go-to-market for small formats to DSD. If you're closely following the late rounds of the Major League Baseball playoffs and the early weeks of the NFL season, I'm sure you've seen our ubiquitous dugout and sideline presence. The net result of our efforts in the quarter and year-to-date is that Gatorade has delivered the greatest absolute volume growth of any trademark in the U.S. liquid refreshment beverage category.

Turning to CSDs. We are pushing forward with our aggressive game plan to engage consumers through innovation, marketing and value and, at the same time, navigating high-input cost inflation. Our innovation and marketing programs are focused directly on our big trademarks: Pepsi, Mountain Dew and Sierra Mist. For example, Pepsi's marketing partnership with the X Factor kicked off with the show's premiere on September 21, driving high levels of consumer awareness for trademark Pepsi, while it reinforces Pepsi's strong emotional ties to music and pop culture. X Factor has been particularly effective in creating highly positive social media buzz for the Pepsi brand.

And we are making progress with our other CSD initiatives as well. Pepsi Max continues to perform well with volume nearly doubling over 2 years behind our message of 0-calorie maximum Pepsi taste. We've launched Mountain Dew Game Fuel as a limited time offering. And together with Doritos, we are partnering with Activision on their introduction of Call of Duty: Modern Warfare 3, which is expected to be the biggest entertainment launch ever.

We're using price/pack architecture to more effectively target locations, consumer cohorts and channel opportunities. In large-format channels, we have reached national distribution of our new value-oriented 1.5-liter PET take-home package. And in the cold channel, we have a broad package lineup including 16-ounce, 20-ounce and 1-liter packages to address a variety of consumer price points and occasion needs.

And as I mentioned earlier, we implemented pricing actions broadly across CSDs in the third quarter, above the industry average based on syndicated retail data, and we did this to help partially offset commodity inflation. So in beverages, do we have more work to do in North America beverages? Yes, we do. This is a competitive business in a tough environment, and there are no quick fixes. We're intensely working away at it, and we're approaching it deliberately and sustainably.

Our third plan is to grow our nutrition business. Our nutrition products grew net revenue 8%, excluding acquisitions. Our growth is coming from the success of Gatorade and the Tropicana initiatives I mentioned earlier and from strong Quaker international growth. In addition, our dairy platform continues to perform very well, notably in Russia through the Wimm-Bill-Dann business, and in the Middle East through our joint venture with Almarai.

Our fourth plank is to unleash the power of Power of One. Over the past few months, our Power of One initiative has been the topic of speculation, largely fueled by a number of high-profile corporate split-ups. I firmly believe that PepsiCo's value is maximized as one company. It was created as an integrated snack and beverage business, and its success is tied to this combination. This has been true in the past and will remain in the future.

So allow me to explain. In many international markets, we build an extended scale of our overall business with beverages by ourselves and with our franchise partners. Our snacks businesses in these markets then follow well, whether through greenfield or acquisition, benefiting from our beverage scale. Our beverage scale also allows us to attract great talent, makes us highly relevant to retailers and gives us visibility to consumers and other important local constituents.

Outside the Americas, our beverage and snack leadership is comprised of one team, and deeper into the organization, talent flows seamlessly between snacks and beverages. In fact, in some countries, we have very fully integrated snack and beverage business models with snack and beverage products carried on the same route truck.

Let me now turn to the Americas and focus particularly on Power of One in North America. To understand how we operate in North America, it's best to look at all elements of our value chain across snacks and beverages. In our back office operations, we have shared services across accounting, transaction processing, call centers, IT. In R&D, we have synergies across multiple platforms, including flavorings, packaging, environmental initiatives. And in procurement, we have one global center of excellence with deep capability. In sales, we align with our key customers' strategic priorities by executing on top-to-top summits and joint innovation calls that utilize our full portfolio to share unique shopper and consumer insights and provide cross-category product and merchandising solutions.

And in go-to-market, we are piloting promising in-store merchandising models, designed to reduce out-of-stocks in high-volume stores. Even in those areas where we find the benefits of focus to outweigh scale, like many manufacturing and marketing, we're able to realize the Power of One benefit by sharing best practices and the transfer of ideas and talent between these 2 businesses.

So in North America, we are already realizing some of the potential of Power of One, and we'll continue to deliberately and systematically pursue every opportunity area to realize its full potential as we go forward. Net-net, PepsiCo is an integrated company with 2 highly focused and complementary businesses: snacks and beverages, with the nutrition business nested within these 2 segments. It is simply a clean, focused company that derives its strength from a world-class snacks business, augmented by a geographically diverse, iconic, profitable beverage business. Our success is absolutely linked to the Power of One.

So with that, let me turn the call over to Hugh to cover our fifth slide, prudent financial management. Hugh?

Hugh F. Johnston

Great. Thanks, Indra, and good morning, everyone. Let me comment on our financials for the quarter and our outlook. Core EPS was up 7% in the quarter, reflecting 6% core division operating profit growth, and approximately 1 point of corporate leverage. Core division operating profit growth was driven by strong top line growth. We had good net price realization in the quarter across our businesses, as we took incremental pricing on top of this year's earlier pricing actions to partially offset commodity inflation.

As you know, commodity inflation has ramped up as we moved in the second half of the year as we expected, so some of the incremental pricing is simply offsetting the incremental inflation. In addition, we experienced the reversal of the concentrate shipment timing benefits that we experienced in the second quarter. These items negatively impacted Europe's and EMEA's operating profit by about 4 and 9 percentage points in the quarter, respectively. As a consequence, operating margins compressed somewhat in the third quarter as we anticipated. Below the core division operating profit line, we had some deleverage from corporate unallocated costs, where we were lapping a gain in the prior year of approximately $60 million related to our post-retirement benefits program.

The tax rate in the quarter was lower year-on-year based on an adjustment to our estimate of geographic profit mix, and our fully diluted share count for the quarter was approximately 1% lower year-on-year, reflecting the impact of our share repurchases. Net, the impact below the division operating profit line of lapping the gain in corporate costs, the lower tax rate and the reduced share count provided approximately 1 point of core EPS leverage.

Now let me comment briefly on pricing. Our third quarter pricing actions were implemented as planned, and the elasticities we've observed so far are largely in line with what we'd modeled. Looking now to the fourth quarter, we've reaffirmed our full year target for high single-digit core EPS growth on a 52-week U.S. dollar basis.

Our outlook for commodities for the balance of year has not changed since the time we spoke to you on the Q2 call, and that's because by mid-year, we had the full calendar year substantially locked in through our hedging programs. The magnitude of commodity inflation ramps up consecutively from Q3 to Q4, and we have incremental pricing planned in the fourth quarter to partially offset the incremental inflation.

In part, our Q4 net price realization will be driven by recognizing a full quarter's impact of the actions we took mid-Q3, and we're also considering some incremental actions for Q4. Currency will not provide the full year benefit we anticipated on the Q2 call, given the recent strength of the U.S. dollar, and for that reason, we've called down our estimate of the full year FX benefit from 2 points for the full year to 1 point for the full year.

On share repurchases, we're on track to achieve our share repurchase target of $2.5 billion for the full year with over 1.9 billion in share repurchases completed year-to-date through the third quarter. Now looking ahead, here's what we'll be focusing on for the balance of year. First, we're going to continue to support our brand building and consumer-facing initiatives. With the pricing we've put in the market, it's more important than ever to clearly communicate the value of our brands and to keep our consumers engaged in our products and categories. Second, we're staying committed to our emerging markets initiatives, especially those extending our go-to-market reach and increasing our level of consumer engagement. Third, we'll continue to carefully balance pricing and value as we manage through commodity inflation. We're doing this through pricing, price/pack architecture and providing products that appeal to the broad consumer spectrum from the value-conscious through premium seekers. And finally, we're accelerating and intensifying our productivity agenda across our entire compressible cost structure.

We're reducing packaging costs, energy use, empty miles, to name a few, systematically taking out costs that do not detract from our customers’ or consumers' experience with us. We're making progress here, but we believe there's still lots of opportunity to do more.

Looking further out, I know many of you are interested in hearing our outlook for 2012. We're right now in the process of finalizing our plans, which will occur over the next few weeks. We plan to get back to you by conference call in early December once our plans are finalized to review our outlook with you. This will include a game plan for 2012 and our views on commodity costs, investments, productivity programs and foreign exchange.

Now we're happy to move on and take your questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Kaumil Gajrawala with UBS.

Kaumil S. Gajrawala - UBS Investment Bank, Research Division

Can we just talk about Russia a bit? I think you mentioned it was up 70% over the last 2 years. Can you maybe comment on how Russia's done a bit more recently? And then also with how much you've invested in that market over the last few years, it sounds like you may have withdrawn some television advertising through the end of the year. So if you could just talk about some of the context on that decision.

Indra K. Nooyi

Yes, we have Zein Abdalla here, Kaumil, and he stands ready to answer your questions. Go ahead, Zein.

Zein Abdalla

Kaumil, look, it's always an absolute pleasure to talk about Russia. As you know, it's one of our largest businesses globally and a market that we really believe has an enormous long-term potential. The fundamentals in Russia are very strong. It's one of the countries that has got, I think, a very robust set of economic indicators, low debt ratios, good foreign exchange reserves and strong and, obviously, continuous leadership. Now, nonetheless, it has gone through some short-term challenges, as we've seen how commodity inflation and disposable incomes have challenged some of the consumer markets. And also, Russia has experienced some of its own local inflation. If you'll all recollect in 2010, they experienced a very hot summer that had a detrimental impact on their agricultural programs, and certainly, things like wheat and potato cost, and basic commodities went up quite radically in terms of price. But against that backdrop, I have to say we're delighted with the performance of our business, competitively, very strong. We've continued to manage our pricing carefully to protect gross margins and to continue to drive revenue growth. And that's across all of the diverse categories in which we operate. Now, clearly, there will be a few more challenging months still ahead in Russia, and this is where scale of your operating business and the strength of your operating businesses really, really counts. At more than 2x the scale of our nearest competitor, with this very diverse operating model across a diverse set of categories and really just a tremendous Power of One model, both in terms of the supply chain that we operate across that geography, the strength of our go-to-market systems, both in traditional trade and organized trade. So yes, a very strong performance competitively in Russia. Now let me just turn to the comment you made about advertising. I mean, clearly, in these type of volatile conditions and in a developing market, one of the key things is stay agile with where you make your investments. We've continued to make investments in Russia, but we have emphasized in our investments in go-to-market systems and our selling capability. We've expanded significantly the number of routes in 2011. We've put more than 250 new routes to support that very broad-based business. We've continued to invest very strongly in coolers and racks because driving our single-serve business, driving our traditional-trade business and having a platform to leverage all of those categories across is critical to our long-term future. So we're pleased both with the short-term performance. We are maintaining investment, but a slightly different emphasis in the shape of that investment.

Operator

Your next question comes from the line of Dara Mohsenian with Morgan Stanley.

Dara W. Mohsenian - Morgan Stanley, Research Division

Hugh, I know you're not giving specific guidance on 2012, but can you at least talk conceptually about some of the puts and takes as you look out to 2012 in terms of consumer demand and commodities?

Hugh F. Johnston

Dara, I appreciate the question. And of course, there's desire to hear it right now. But I think to get into any level of specificity that would be helpful to you in 2012 is just simply premature. With the commodities markets as volatile as they are, with the economies as volatile as they are, to start getting into where we might go, I think, would probably just -- it's too early as we sit in mid-October. The things I would say are -- and as we think about not just 2012 but Q4 as well, the things we clearly need to do are, number one, we clearly need to ensure that our brands are sharply defined and well supported; we need to make sure that our pricing is competitive; we need to make sure that our innovation is well supportive; and to fund all of that, we need to be sure that we absolutely max out on productivity. So when you talk about what are the things that we're working on, it's truly working on those things. And if we do those things successfully, I'm confident we'll win in the marketplace, and we'll win financially, and investors will be well-rewarded for it.

Dara W. Mohsenian - Morgan Stanley, Research Division

Okay. That's helpful. And then you talked about potentially taking some additional pricing in Q4. Can you give us some more detail there? Is that focused more in beverages or snacks or both areas? And from a geographic standpoint, would it be more focused on the U.S. or potentially also international too?

Hugh F. Johnston

Yes, it's really the things that we've talked about up to now. So the Gatorade pricing, of course, is going in, in Q4. The single-serve pricing in Frito-Lay is going in, in Q4. And then there are some select areas internationally where we're pricing. But by and large, even by now, it's in the marketplace pretty much.

Operator

Your next question comes from the line of John Faucher with JPMorgan.

John A. Faucher - JP Morgan Chase & Co, Research Division

Was wondering if you could sort of go through by the divisions and talk about the elasticities. It sounded like when you presented at the Barclay's Back-to-School Conference back in September that you were more concerned about the elasticities, and that didn't show up as much as I think maybe I had feared in the volumes. So can you talk a little bit about what you're seeing in your different divisions, particularly in North America?

Hugh F. Johnston

Sure, John, I'd be happy to. Up at Barclays, John Compton and I were both there and what we had talked about in the snack world was we thought at the time that the elasticities were a little bit -- were shallow or that consumer response was a little bit stronger than we had expected on large bag. And we've sharpened some of our price points and some of our promotional strategies in order to address that. Single-serve, on the other hand, which has gone into the market more recently, and we hadn't talked about that up at Barclays, we've actually -- and it's early days, but we've actually seen that pricing stick well. In fact, if anything, the elasticities have been a little bit more favorable to us than we'd expected. Beverages, as you know, and particularly, in North America is a complex evaluation because there's category elasticity as well as cross-competitive elasticity. I think we're, at this point, seeing that as we've gotten through kind of the initial period of pricing, I think we've seen the elasticity settle in about where we expected. From an international perspective, I don't think there have been any particular surprises. The comments that we made up at Barclays were probably more North America oriented. So I think we've gotten to a point now where the pricing is reasonably settled in. Of course, in beverages, it's a competitive marketplace, and we'll always have to address that as a part of managing the business.

Indra K. Nooyi

John, I just want to add one more thing. I think the level of pricing we're taking in the marketplace puts us in uncharted territory. We haven't had this amount of pricing in a long time, and so I think pricing actions require courage. You've got to stick with the pricing actions and let it stick and not let any short-term share changes disrupt your long-term direction. And so our experience is that when you put in place significant pricing actions, it takes several periods before it takes root. And as leaders in many of the categories, we just have to have the courage to stick it out. And that interim period may be uncertain, but where we've stuck it out, we've actually seen positive benefits that accrue to us from the pricing actions.

John A. Faucher - JP Morgan Chase & Co, Research Division

Great. And so as we look out, you talked about taking even more pricing as we look out into the fourth quarter. So should we expect another tick down into the volume? Any sort of -- any thoughts as we look out sequentially there? Or do you feel like okay, the pricing's going through pretty well, and there's not big impacts incrementally from the next round?

Hugh F. Johnston

Well, it's always tough to project where competition is going on that. Obviously, that has an impact as well. But I feel like we've gotten the pricing reasonably burned in. I think what we're doing right now with Gatorade and with single-serve on Frito-Lay is working pretty well. So I think we feel pretty comfortable with what we have.

Operator

Your next question comes from the line of Carlos LaBoy with Crédit Suisse.

Carlos A. LaBoy - Crédit Suisse AG, Research Division

Indra, you have Gatorade and juice marketers that surely want more funding, and you have newly hired soft drink marketers that need funding to close competitive gaps and to win. Do you have enough efficiency and cost reductions identified to fund the step-ups that are necessary for these marketers to win and still hit the long-term guidance? And similarly, do you also have enough funding sources identified to step up the U.S. marketing programs that you like internationally?

Indra K. Nooyi

Carlos, I think Hugh touched on this when he answered one of the earlier questions. One of the things we do is we focus a lot on productivity, and we look at every aspect of the cost structure of the company. We look to see where we can take out layers or inefficiencies, make the company more agile, more flexible. And in making the company more productive, we take these productivity savings and then we use some of it to cover commodity costs, and the rest of it goes into investments. But the priority is investments in the brands and driving innovation and making sure our businesses are well supported first, and then it is on covering commodities. And that's the game that -- Hugh outlined that we want to play going forward, and that's what we're focused on right now. As you look at our North American beverage brands, Gatorade needed immediate attention about 3, 3.5 years ago, and that's where we started. We put the money, we put the effort behind it with enormous success. Then we went to work on Tropicana, again, success. We went to work on Pepsi Max. We went to work on Sierra Mist. We bolstered Mountain Dew. And every one of these, deliberately invested behind in a very difficult environment, is yielding results. Our next effort is to focus on brand Pepsi and to keep all of the other initiatives we're doing going. So I think we are focused on the right things. And as a company, we are focused on unleashing enough productivity to put back into the brand.

Operator

Your next question comes from the line of Bill Pecoriello with Consumer Edge.

William Pecoriello - Consumer Edge Research, LLC

Indra, I'm just trying to -- so you've been talking about -- when you think about the consumer environment, competitive environment, retail environment, both in snack and beverages, you're talking about -- elasticities have been in line and some sharpening of the price points. But also the need to properly fund the brands, remain price competitive. So when you assess the spending behind the brands, both to snacks and beverages, are you talking about here kind of tweaking and sharpening versus really, say, there needs to be a step-up and we need to both really step up the productivity and really step up the support, given the difficult consumer competitive retail landscape that's out there? Just trying to get a feel of the magnitude. Is this tweaking and sharpening or more of a step-up that's needed on both fronts, given that difficult environment?

Indra K. Nooyi

Bill, as Hugh mentioned in his opening comments, we're going to be back to you in early December to give you a fuller picture of what we intend to do in 2012 and going forward. It's too early because we're still trying to see where commodity costs are going to settle down, what the economic environment is going to look like, how much of the pricing is going to stick, how much more we can take. So as we sort all of that out, and that in large part drives the room left for investments, what our productivity programs are. Just hang tight for the next 6 to 8 weeks. We’re going to be back in the first week in December, and we'll give you a full picture based on much better information in the environment because our actions are in large part dictated by what happens in the environment also. We cannot operate independent of that. So first week in December, I look forward -- we all look forward to a robust conversation with all of you.

William Pecoriello - Consumer Edge Research, LLC

Great. And just one follow-up. In terms of the fourth quarter, you had mentioned on the last conference call, the pricing was going in, uncertain how much had to be spent back, your reiteration of guidance. You feel that with the elasticities, the level of spend back and promotion between now and year end is within your expectations, or is it being offset elsewhere in the portfolio, or largely, the promotional spend back has been in line?

Hugh F. Johnston

Yes, Bill. Obviously, we feel comfortable when we reiterate that we’ve got it captured. As I mentioned earlier, we've certainly sharpened some of our promotional strategies within Frito. But when we add up the aggregate of pricing, productivity, consumer response to the pricing, we feel comfortable overall that the equation hangs together.

Operator

Your next question comes from the line of Mark Swartzberg with Stifel, Nicolaus.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc., Research Division

Indra, a question on North America as we think of the strategy in beverages looking forward. Could you give us an update about how you think the business stands in terms of the price/pack positioning today versus what it might be in light of consumer needs? And then, secondly, as you think about Power of One, how is that in any way preventing or aiding even your ability to work with other suppliers beyond snacks to promote your beverage brands?

Indra K. Nooyi

Let me start with the second one then come to the first one. I think on Power of One, beverage into snacks works very well together now with John Compton leading the Power of One Council and with Al Carey running beverages. Al Carey was the father of Power of One, which started 12 years ago. And now with Al Carey running Pepsi Americas beverages, I think you're going to see a level of cooperation and idea generation that's going to be quite impressive. So I remain very, very optimistic about Power of One now beginning to start driving the top line even more than it used to before. Doesn't stop us from working with other people. I'm going to have John talk about that because with a lot of our customers, we do Power of One programs, which cover multiple categories. So John, do you want to touch on Power of One with other categories and whether our beverages and snacks prevents you from working with anybody else?

John C. Compton

Yes, Indra and Mark, within consumer packaged goods, I think we're best suited to work with ourselves in terms of food and beverage product because we haven't fully tapped that potential out. Clearly, there are other related categories that make these holidays stronger for the retailer that we can bundle with. And to your point, Indra, having Al running the beverage business and now Tom Greco, who also worked in the Power of One center in the past, working together across North America, where you'll see us beginning in Q1 begin to unleash, I think, some new benefits behind Power of One. Customer, channel, consumer promotion and looking at ideas that can grow horizontally, paying off a consumer benefit from snacks to beverages.

Indra K. Nooyi

But you've also worked with many other retailer products. Game Time included multiple products...

John C. Compton

Multiple products.

Indra K. Nooyi

So again, it's retailer specific. You don't do it on a blanket basis. But there are multiple retailer specific programs we do, which cover multiple categories. And so -- and they've all been very successful. So Power of One, I think, is the unique differentiator for PepsiCo. We are an integrated snack and beverage company, and so that's what we are. Let me talk a bit about North America. The North American beverage business is a terrific business and a tough business, the 2 Ts. And I'd say that it's a business, which is large. We are the largest liquid refreshment beverage player. We have 23, 24 share of this LRB market, and we have leadership brands in this business. This business has also, for many, many years, been one where it's very profitable, but the profit pool has not grown. Between the bottlers and the franchise company, the profit pool has not grown as much as it needs to, and that's been the challenge for this business because it's a repertoire category. There's no clear demarcation between each business. It's a repertoire category, and how you play this business between the 2 or 3 big players and with the pure plays determines how you perform quarter in and quarter out. From PepsiCo's perspective, I think that especially in the period about 2004 to 2006, I think we hit the volume pedal a little too much when we perhaps could have invested more in the brands. And then we went into this tremendous economic downturn, and now, what we are looking at since about 2007, how do we take each of our brands and make sure they're supported correctly and we are driving them to remain the leaders in their categories? We started with Gatorade, tremendous success; Tropicana, success. We are now beginning to work on Sierra Mist, which again is now growing. Pepsi Max doubled in size. We started to invest behind Diet Pepsi, trademark Pepsi, Lipton Tea. Brand by brand, we're beginning to work on brand investments. And along with brand investments, given the new economic realities, we are beginning to think about creative ways to implement revenue management and price/pack without creating a problem with retailers, with consumers trading down, because we have to make sure that any price/pack architecture we do makes -- keeps the retailer whole. So this is not an easy one to just put in new packaging. We have to work very carefully with retailers to make sure there's no trade down in the category. So we are working through all of these strategies as we speak. And the good news is that we are seeing success when we invest behind the brand, when we focus on execution. We're seeing success in each of the brands and their performance. But this category's so big, it has so many brands and so many categories, you can't try to address all the businesses in one broad brush. So I think it's a deliberate sustainable strategy, Mark. And we're feeling cautiously optimistic about where we are headed in this North American beverage business.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc., Research Division

That's great. And if I could, on one follow-up, could you speak -- could you just build on what you said, Indra, there, specifically, as it relates to the convenience channel, that concern about consumers trading down, but that interest in improving revenue management?

Indra K. Nooyi

Again, I think every time you put a package -- and remember, the 20-ounce single serve package is a fantastic package in convenience stores. It's a great value. We sell a lot of it, and we are -- convenience stores is a channel that we love. In fact, I think, John, you were showing a number we'd said in year-to-date...

John C. Compton

11 out of the 15.

Indra K. Nooyi

11 out of the 15 top products in convenience stores are PepsiCo products. So this is a very -- it's a wonderful channel. It's still growing. Even in this economic situation, it's growing because the up-and-down-the-street consumer is still using soft drinks and snacks as their moment of pleasure. So we like this business a lot. We have to make sure that we don't trade down volume, or we don't trade down packages, which make consumers go to a different package size without getting the appropriate value benefit from that. So we are looking through what's the right package to give consumers enough beverage to drink at a price that delivers unbeatable value to the consumer. And we're doing it in beverages. But more importantly, we're looking at doing it in a bundled way between snacks and beverages, so the consumer can go into the store and get a phenomenal PepsiCo beverage and a Frito-Lay snack at a combined price that generates enormous value to the consumer rather than just go head-to-head on beverage.

John C. Compton

Mark, I'll add one point to the -- it's nice to have 11 out of the 15 top new items in the C&G channel, but that led PepsiCo to be the largest dollar growth contributor to the channel. So we are very important to the C&G store business, and they're pleased with our growth year-to-date.

Operator

Your next question comes from the line of Judy Hong with Goldman Sachs.

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

Just wanted to ask about Frito-Lay North America. It sounds like the unmeasured channel performance is much stronger than what we're seeing in the measured channel data, so maybe a little bit more color around sort of the unmeasured channel performance. And John, maybe just talk a little bit about the competitive dynamics that you're seeing in the marketplace. You've talked about sharpening the promotional price points. But in the measured channel data, at least you're starting to see the gap widening again versus some of the smaller players. Is that a concern? Is there more work to do just in terms of just tackling the competitive dynamics?

John C. Compton

Judy, thank you for the question. Let me start with the bigger picture first around what Frito-Lay does so well is we go where the consumer is shopping, and we've talked about low, medium and high-income consumers. And as you saw in our release, more than our -- more than normal of our growth came out of channels that are unmeasured. So the C-store channel, the club channel, the dollar channel. Those disproportionally drove growth for us this quarter. Within the "traditional measured channels," it is true that our share was down roughly about 1 point on dollar share. Most of that went to private label. And in this down economy, we chose not to price down to cover private label, okay? There is some growth in sort of higher income products that we are going to address in Q4 going forward. And you'll see that when I do the Back-to-School Conference coming up in later this fall. So I'm pleased overall with the volume growth. I'm pleased that we're able to get the pricing through, and we remain as competitive as we've always been in terms of addressing market share.

Indra K. Nooyi

And Judy, I'd tell you, I've had the privilege of seeing Frito's innovation for next year, and it's phenomenal. So we feel good.

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

Okay. And then, Hugh, just fourth quarter, obviously, you're sticking to the 27% tax rate for the full year. So sounds like the tax rate will ramp up in the fourth quarter, and then the corporate expenses, maybe it's not going to be up as much as what we saw in the third quarter. And then I'm just wondering about the impact of the 53rd week. I know your earnings guidance is really on a core 52-week basis, but is there some element of the

-- having the 53rd week actually beneficial to looking at a 52-week numbers, because on the 53rd week, it's not as profitable?

Hugh F. Johnston

Yes. So, Judy, 3 questions there. Let me take them one at a time. From the standpoint of the tax rate, you're right. We've said that we'll be approximately 27%, so that implies a higher tax rate in the fourth quarter. That's correct. Number two, you asked about the corporate expenses. From a growth standpoint, the numbers won't be as high because we're overlapping a big credit last year. From a run rate perspective, you can probably expect them to be reasonably consistent with what you've seen in the first 3 quarters. And then number three, in terms of the 53rd week, anything -- you're right. We talk on a 52-week basis, and anything that we would think about doing with the 53rd week, if we were going to do anything with that, we'd probably get back to you on the December call. So no news there to talk about on the 53rd week.

Operator

Your next question comes from the line of Ali Dibadj with Sanford Bernstein.

Ali Dibadj - Sanford C. Bernstein & Co., LLC., Research Division

Just wanted to ask a little bit more about investments and elasticities because it looks like if you back out Latin America for this quarter at least, U.S. beverages was down something like 2%, and CSD is probably higher than that, given Gatorade, which has, longer term, been somewhat of a trend. So what do you really need to do longer term, and maybe your peers too, to see this trend abate? And you said in an earlier question that when you do focus on a business, when you do apply resources, then you show success, and I think that's been clear. But how many of those holes are there still to plug, particularly, given your drop in asset sales over the past several years at the company? And again, it's kind of a question of what's the right level of add to sales and price growth that, longer term, you need to deliver to show what you want from a volume perspective? And again, I'm not asking a 2012 question. So, hopefully, you don't use that as an excuse. I’m asking a broader strategic question about the category and your positioning in it.

Hugh F. Johnston

Yes, Ali, this is Hugh. That was certainly an impressive question. Let me try to parse it and address some of the pieces. You talked about CSDs, and obviously, CSDs are an important part of our portfolio. But keep in mind, we do play an LRB game, and that's -- we've been doing that for more than a decade. We were certainly the first to go and do that. But undeniably, CSDs are an important category. So what do we need to do in CSDs? Obviously, we've got a price to be competitive. And in doing that, we've got to balance commodity costs, we've got to balance consumer, and we've got to balance input -- commodity cost, consumer and competitor. Those are the 3 pieces that we balance in dealing with that. In doing that, we also need to make sure that our brands are sharply defined, and we need to make sure that our innovation is very strong. The category, obviously, it's a challenging category. Clearly, anyone that looks at the numbers can see that, and that's true for the broad category. I'm not just speaking of PepsiCo's business. Now what are the things that we've tried to do for the long run? The long run in consumer categories always comes back to innovation, and the thing that we've obviously done is we've innovated from a flavors perspective to drive some level of incremental growth. We've innovated from a branding perspective in order to create interesting positioning for consumers. And then as we've discussed in the past, we're innovating from a sweetener perspective, which we do think is a meaningful unlock in the category, and we've gone down a couple of paths with that. First, around the newer sweeteners, such as stevia. And then, obviously, we got some relationships with flavor-enhancer companies, which have enabled us to try products like Pepsi Max and to be able to do those things successfully. So I think in terms of CSDs and, for that matter, the broader LRB category, the key to being successful here is going to be making sure our pricing is competitive, making sure that our brands are very sharply defined and innovating on product over time to ensure that we actually can differentiate ourself clearly from competition. That's the strategy we're following, as Indra referenced on the script that we read earlier. We think we're successful in moving that agenda forward, but we also fully acknowledge that we've got more work to do on that, and that's what we'll -- we're going to continue to work at. We view it as a terrific business, and we view it as one that generates a lot of cash for shareholders that we feel very, very good about. So it's certainly one that we're going to continue to compete vigorously in.

Ali Dibadj - Sanford C. Bernstein & Co., LLC., Research Division

So how much did that cost you?

Hugh F. Johnston

Sorry?

Ali Dibadj - Sanford C. Bernstein & Co., LLC., Research Division

How much does that cost?

Hugh F. Johnston

How much does it cost to do what?

Ali Dibadj - Sanford C. Bernstein & Co., LLC., Research Division

To do all of that. So does margin compression kind of have to be an outcome of this? I mean, you've clearly increased investment pretty significantly again with successes, but you've increased the investment. So as you go forward for the categories you operate in and maybe disproportionally CSDs, is the investment return kind of getting worse as you go forward here and forever will be, I guess?

Hugh F. Johnston

Yes, I don't think so. I think what we're trying to do right now -- and obviously, we're thinking about 2012. We're certainly assessing all of those things. One of the questions that was asked earlier on the call was around marketers looking for more money, and we feel very good about the marketing team we have. And listen, it's been my experience over 25 years that good marketers always ask for more money. It's tradition in effect. I think as we go through our planning process, we'll determine what we think are the right investments in order to generate competitive success, as well as to generate financial success. And to talk about 2012 and beyond at this point, it would probably just be a bit premature.

Indra K. Nooyi

Yes, Ali, I think the other thing too is I wouldn't separate out any costs and talk about what does it cost in North America, because investments we make in technology, Hugh talked about sweeteners, enhancers. I can talk about processing technologies that we're investing in to take down the cost of processing in all these products, apply across our global beverage portfolio. So some of these investments we are making are not just for North America. We've got to think of it as how can we drive the overall beverage business. So I think in the context of all of that, given the size and the profitability and the cash flow generation that we get from our North American beverage business and global beverages, we feel pretty good about where we're headed. And all that it takes is a couple of breakthroughs which, as I said in one of our earlier interactions, we are very, very close to these breakthroughs. It's always the last 5% or 10% that you've got to sweat the details on, which is what we are doing now. But when these do -- these breakthroughs do get commercialized, it's quite a breakthrough. And so we feel quite optimistic about the prospects for this business.

Ali Dibadj - Sanford C. Bernstein & Co., LLC., Research Division

Okay. Just one quick one. It sounds also that you're a lot more optimistic, at least, versus what we've heard on pricing rationality in North America versus kind of the language that was in Q2. Is that a fair read, again, pricing rationality in the U.S. in particular versus your competitor?

Hugh F. Johnston

Ali, pricing is sort of a week-by-week, period-by-period thing in this business and particularly in the beverage business. So I think what we're saying is we feel comfortable that we're getting pricing in place, but we'll see what happens.

Indra K. Nooyi

Let me just summarize this call. We're encouraged by the balance of top line and bottom line performance in the quarter across snacks and beverages, and we are totally focused on and committed to our 5 key planks, and we're encouraged by the progress we're making on each of them. And as we said on our earlier comments, we'll come back to you in early December to provide our outlook for 2012. Thank you very much for your interest in our company and for your time this morning. Thank you.