Good morning, everyone and welcome to this pre-recorded management discussion of PepsiCo's Second Quarter Earnings Results. My name is Ravi Pamnani and I am the Senior Vice President of Investor Relations at PepsiCo. Joining me today are PepsiCo's Chairman and CEO Ramon Laguarta; and PepsiCo's Vice Chairman and CFO, Hugh Johnston.

Before we begin, please take note of our cautionary statement. We will make forward-looking statements on today's call, including about our business plans and outlook and the potential impact of the COVID-19 pandemic on our business. Forward- looking statements inherently involve risks and uncertainties and only reflect our view as of today, July 13th, and we are under no obligation to update. When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results.

Please refer to today's earnings release and 10-Q, available on pepsico.com, for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements. As a reminder, our financial results in the United States and Canada, or North America, are reported on a 12-week basis, while substantially all of our international operations report on a monthly calendar basis for which the months of March, April and May are reflected in our results for the 12 weeks ended June 13, 2020.

And now, it's my pleasure to introduce our Chairman and CEO, Ramon Laguarta.

Ramon Laguarta

Thank you, Ravi, and good morning, everyone. I will spend some time today discussing the current environment, our business performance and then provide thoughts on our expectations going forward given the unprecedented level of volatility that we currently face. I will then turn it over to Hugh for additional color on the financial details.

Our second quarter began during the early stages of the COVID19 pandemic for most of our markets. As we started the quarter, we set clear, simple priorities to manage the business successfully through the enormous challenges that were happening with the consumer, customer, economy and operating environment. These priorities included: ensuring the protection and safety of all our associates, especially our critical frontline workers, by providing suitable personal protective equipment and sanitizers, conducting health screenings and implementing contact tracing and social distancing protocols; providing the best service possible to our customers and competing to win in the marketplace; ensuring that we have adequate liquidity to run the business; continuing to invest in capabilities that will drive our long-term success; supporting the communities that we do business in and the people who live in them; and, delivering strong financial results while executing against the above priorities.

Based on this clarity of purpose, I'm pleased to report that our business performed relatively well through this unprecedented level of change. Specifically: our organic revenue increased 3.3% for the first -- for the first half of this year, while second quarter organic revenue declined 0.3%.

During the second quarter, our portfolio worked well as our global snacks business remained very resilient with 5% organic revenue growth, while global beverages declined minus 7% as increased take-home consumption was more than offset by a decline in the convenience and gas and away-from-home channels.

Our core operating margin declined by approximately 200 basis points in the second quarter which included nearly $400 million of incremental COVID-19 related costs to keep our employees safe and ensure business continuity. Excluding these costs, our core operating margin would have increased in the quarter.

The months of March and April were particularly challenging as overall global economic growth was contracting and restrictions, closures and the resulting impact on consumer mobility had a significant effect on our performance. However, we saw an improvement in our business performance and channel dynamics in May and June as population mobility increased after many economies gradually began to reopen both in developed and developing markets.

Now, turning to our business review for the quarter, I will start with North America. Our snacks and food businesses performed very well, while our beverage business was challenged, but continued to improve its competitive positioning. Within snacks and food, we delivered strong organic revenue growth across both Frito-Lay and Quaker, driven by strong category growth and market share gains.

Consumer eating habits continued to evolve, with consumers spending more time at home, which benefits the at-home breakfast, snacking and dinner occasions. Organic revenue at Frito-Lay North America grew 6% and we gained share -- market share in salty, savory and macro-snacks in the quarter. Frito's net revenue growth was broad-based across all our major brands including double-digit growth in Tostitos, Fritos and Cheetos, high-single digit growth in Ruffles and mid-single digit growth in Doritos.

Emerging brands such as Bare and Off The Eaten Path also delivered double-digit growth. Our larger pack sizes and multipacks performed very well as consumers' desire for variety continued to grow. In addition, Frito's performance in large-format channels was strong, which more than offset the declines in the convenience and gas and away-from-home channels.

Frito's core operating margin declined in the quarter due to COVID-related costs, including frontline incentives and higher protective personal equipment and sanitation costs. Excluding these COVID-related costs, Frito's core operating margin would have increased by 185 basis points.

At Quaker Foods, organic revenue increased 23% in the quarter with strong share performance across multiple categories and most brands posting net revenue growth despite supply constraints across a range of our products. Many categories within the Quaker business delivered double-digit revenue growth driven by increased breakfast occasions, in-home dinners, and baking occasions.

Quaker was also able to increase household penetration during the quarter and many of Quaker's categories have grown even as economies reopened during the latter parts of the quarter with consumers purchasing and incorporating these products into their repertoire of food consumption. We also have strong plans in place to retain incremental households with marketing and activation plans across the Quaker portfolio during the balance of this year, including the launch of Cheetos Mac 'n Cheese this coming Fall. From a profitability perspective, Quaker's operating profit increased 55% in the quarter as strong operating leverage drove a 600 basis point improvement in its operating margin.

Now, I will turn to our North America Beverage business, which had a challenging quarter as we had expected. Organic revenue declined 7% due to declines in the convenience and gas and foodservice channels, which more than offset good growth in other channels such as grocery, mass and dollar stores. However, our revenue management initiatives enabled strong pricing gains across the business and within key categories such as carbonated soft drinks and sports drinks.

Both Pepsi Zero Sugar and Bubly continued to deliver strong double-digit net revenue growth, while our ready-to-drink coffee products delivered high-single digit net revenue growth in the quarter. In addition, we gained market share in ready-to-drink coffee, tea and enhanced waters during the quarter, while our market share trends improved in carbonated soft drinks, sports drinks, and juices as the quarter progressed.

Core operating profit declined due to higher COVID-19 related costs, including expenses for employee safety, sanitization and frontline incentives, lower volume and unfavorable channel mix dynamics. Before I conclude on beverages, I am also pleased to note that our transition and integration process with ROCKSTAR and the distribution of Bang Energy is nearly complete. We have very strong growth and market share ambitions with respect to this highly profitable category and intend to use the depth and breadth of our portfolio and distribution capabilities to improve our execution and store presence.

Our energy strategy will consist of three elements. Specifically: we will look to accelerate the performance of ROCKSTAR, which has further room for growth; we will expand the distribution of Bang and improve execution in the marketplace; and we will unlock the potential for Mountain Dew to expand in the energy category.

Now, as we look ahead for North America, we expect our overall business to perform well, assuming there is no large-scale disruption in economic activity or population mobility as a result of the recent surge in COVID-19 infections in many markets. With this in mind, we expect our snacks and foods businesses to remain resilient, albeit with some moderation in growth, while our beverages business should deliver better performance during the second half of this year.

From a channel perspective, we have seen an improvement in the performance of the convenience and gas channels since the latter part of the second quarter. Foodservice trends have also improved, but this channel continues to be in decline and will likely take a bit more time to recover. Most of our remaining traditional channels have continued to perform well, while our ecommerce U.S. retail sales doubled in the quarter.

Now, moving on to our international businesses, our second quarter results, which incorporated the months of March, April and May were significantly impacted by the timing of COVID-19 restrictions and closures, which varied by country and by region. As we saw in North America, our international snacks and foods businesses proved to be more resilient than beverages, with an increase in organic revenue growth of 2% in snacks, versus a decline of 5% in beverages.

Across our developed markets, organic revenue increased 18% in Germany, 9% in Australia and 3% in the United Kingdom. And in developing and emerging markets, organic revenue increased 30% in China, 8% in South Africa, 7% in Brazil and 3% in Mexico. Our SodaStream business also posted another quarter of strong double-digit net revenue growth as consumers are increasingly enjoying this environmentally friendly, at-home platform.

With respect to our competitive position, we improved our year-to-date market share of snacks in Mexico, China, Brazil, U.K., France and Spain, while we held or improved our market share of beverages in the United Kingdom, Germany, Poland, Mexico, Brazil and Thailand.

Much like in North America, our international business trends began to improve during the month of May as some businesses and economies reopened. In addition, our snacks business has remained very resilient. However, we do expect an uneven recovery in international markets as a greater level of macroeconomic uncertainty will likely persist due to: varying responses and measures by country to address pandemic-related impacts and population mobility; greater volatility in travel and tourism trends; and, greater differences in disposable income and affordability. These are two metrics we will be keeping a very close eye on as and when we consider surgical adjustments to offer great value in lower income markets.

To summarize, we are pleased with our overall results in what was a very difficult environment. We remain committed to leveraging our strengths and principles, what we call The PepsiCo Way, to help guide our business leaders and associates in both good and difficult times. This includes reinforcing our culture in a manner that encourages our associates to act like owners with integrity, and get things done quickly. We believe acting on these principles will enhance our standing with customers, with communities and employees.

We also continue to prioritize and invest behind our faster, stronger and better framework, which encompasses our brands, supply chain and go-to-market systems, manufacturing capacity, capabilities and culture, and our society by integrating purpose into everything we do. To continue our journey in becoming faster, and best position ourselves to navigate in the current environment, we have instituted an even greater focus on: capturing more opportunities in the marketplace and improving value share; rethinking what value and affordability means for our consumers and rapidly adjusting our offerings when necessary; simplifying our portfolio and commercial programs and making resource allocation adjustments to win with our customers and our consumers; and also, making calculated growth investments in priority markets that can enable us to emerge even stronger after the crisis.

As it relates to becoming stronger, we are putting an even greater emphasis on our businesses to have a zero-based spending mindset in which we must earn our budgets. In doing so, we continually identified savings and use them to fund new investments; prioritizing critical initiatives that will transform the operating capabilities of the company for the future, such as accelerating the digital transformation of the company; and finally, reevaluating and stress testing other less critical investments, always seeking to optimize the investment portfolio for higher returns.

And then becoming better involves raising our ambitions to become Planet Positive; continuing to integrate purpose into our business strategy and brands; and, supporting and strengthening our local communities and promoting social justice - two topics that I will briefly expand on today.

With respect to our communities, we have announced more than $60 million in investments to help communities around the world stay healthy and safe during COVID-19, which includes initiatives to help feed families and seniors, increase medical care and testing, expand access to government support, and provide technology for remote education and work.

To promote social and economic progress, we have also announced more than $400 million set of initiatives over 5 years to support Black communities and increase Black representation at all levels of PepsiCo and amongst our partners and our suppliers. We believe these initiatives comprise a holistic effort for PepsiCo to walk the talk of a leading corporation and help address the need for meaningful, long-term change in our society.

To conclude, we believe that PepsiCo is well-positioned to adapt and succeed over the long-term. We will continue to collaborate and leverage learnings across our entire organization to build on our strengths, many of which have been advantageous for us both pre- and post-pandemic, including large, well-known brands that consumers love, and most importantly, that consumers trust; strong positions in growing categories with expandable consumption traits; an agile supply chain with strong local sourcing networks; a flexible and advantaged direct store delivery go-to-market system; and a highly experienced set of global business leaders who have the empowerment, the knowledge and agility to make rapid, decentralized decisions to meet the needs of their local businesses.

Before I turn it over to Hugh, I want to again acknowledge the hard work of all our employees throughout this year. They have worked tirelessly to satisfy our customers and consumers and I am extremely proud of the dedication and efforts.

With that, let me now turn it over to Hugh.

Hugh Johnston

Thank you, Ramon, and good morning, everyone. As Ramon mentioned earlier, our second quarter results were impacted by disruptions due to retail closures and other restrictions put in place as a result of COVID-19. In addition, our business experienced higher labor, personal protective equipment, logistics and service costs associated with COVID-19. These costs coupled with an adverse channel mix shift in key markets impacted our operating margin in the second quarter. We expect some of these costs to persist and remain committed to making the necessary, long-term investments to support our employees and customers, while also investing in capabilities that drive competitive advantages for our business.

To mitigate some of these challenges, we have accelerated our efforts to control what we can. This includes tightly managing our discretionary expenses, reducing non-essential advertising and marketing spend to reflect the realities of the current environment and optimizing our pricing wherever possible. We have also reduced the complexity of our product offerings by prioritizing high-velocity SKUs to maximize production capacity.

However, it remains difficult to predict exactly how consumer habits and macroeconomic conditions will evolve for the balance of this year. Based on what we can currently project for the full- year 2020, we continue to expect our annual core effective tax rate to be approximately 21%; total cash returns to shareholders of approximately $7.5 billion, comprised of dividends of $5.5 billion and share repurchases of $2 billion; and we now expect foreign exchange translation to negatively impact our reported revenue and core EPS by 3 percentage points based on current market consensus rates.

Our expected cash returns reflect a 7% increase in the annualized dividend per share that began in June. This represented the company's 48th consecutive annual dividend per share increase. With respect to our liquidity and balance sheet, we believe that we have ample flexibility to meet the investment needs of our business and return cash to shareholders.

Now, as we look ahead to our third quarter, we expect our organic revenue to increase within a low single-digit range, which incorporates the geographic perspectives and channel dynamics that Ramon referenced earlier. We expect our core operating margin to contract, albeit at a less severe rate than what we experienced during the second quarter, as greater costs associated with keeping our employees safe persist; and we expect foreign exchange translation headwinds to negatively impact our net revenue and core earnings per share performance by 3 percentage points.

With that, we conclude our prepared remarks for today. We thank you for your time and the confidence you've placed in us with your investment. I invite you to listen to our live question-and-answer webcast, which will begin today at 8:15 a.m. Eastern Time and will be available at pepsico.com. Thank you.

Good morning, and welcome to PepsiCo's Second Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it is your turn to ask a question. [Operator Instructions] Today's call is being recorded and will be archived at www.pepsico.com.

It is now my pleasure to introduce, Mr. Ravi Pamnani, Senior Vice President of Investor Relations. Mr. Pamnani, you may begin.

Ravi Pamnani

Thank you, operator. I hope everyone has had the chance this morning to review our press release and prepared comments, both of which are available on our website.

Before we begin, please take note of our cautionary statement. We may make forward-looking statements on today's call, including about our business plans and the potential impact of the COVID-19 pandemic on our business. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, and we are under no obligation to update. When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results. Please refer to today's earnings release and 10-Q available on pepsico.com for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements.

Joining me today are PepsiCo's Chairman and CEO, Ramon Laguarta; and PepsiCo's Vice Chairman and CFO, Hugh Johnston. We ask that you please limit yourself to one question.

And with that, I will turn it over to the operator for the first question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Dara Mohsenian of Morgan Stanley.

Dara Mohsenian

Hey, guys. First of all, the format is very helpful. So, kudos to your IR team for sort of pioneering this new format on the street. I was hoping for a bit more color on some of the more volatile areas of your business. You obviously mentioned improvements sequentially within the quarter and guided to the organic sales growth acceleration globally in Q3. So, A, can you just give us a better sense of what specifically is driving that? And then, B, I was hoping you could spend some time within that just discussing what you're seeing channel wise in the U.S beverage business and what you're seeing across snacks and beverages in some of your key emerging markets? Are you expecting pretty linear progress sequentially going forward in terms of improving sales growth or more volatility, particularly with some of the state restrictions cropping up in the U S and just given the developing market, country performance is pretty divergent in Q2? Thanks.

Ramon Laguarta

Okay. Good morning, Dara. I hope you're doing well. Listen, let me try and then, Hugh, will add some comments as well. Listen, as we look around the world, we see a couple of factors that are driving our business. Number one, as you can imagine is overall mobility in the country. And that is by far the number one factor and we're monitoring mobility through various means just to understand potential future performance of the business. That's number one.

Number two, and that impacts mostly developing markets, is the universe of stores are opened. What we're seeing in developing markets is that when situation -- when the infection goes up in the country, there's about 10% to 15% of the stores that close and sometimes even higher, and that drives a lot of the performance. So that's number two.

Number three, obviously is where do people eat most of their meals and that's related to whether people are working from home or they're not working from home. And so that's a third factor that is impacted most of the food consumption. So, there could be mobility, but then people still have their meals at home. And so those three are the key factors. Obviously, there's a fourth factor I think will be more important going forward, which is disposable income in the economy and that's related to unemployment and that's related to how much money that governments are putting back into the economy. And that is -- it hasn't impacted the U.S yet. It is impacting some of the other countries around the world, as the governments don't have the muscle to put so much money back into the economy. So those four are probably the most critical kind of factors that impact the business, and that's what we're modeling for various scenarios as we go forward. So that -- that's kind of from a very macro point of view.

Obviously, I said in the last conference call that we had in April that this was not going to be a linear recovery, right? There's going to be a lot of ups and downs, and we're seeing these happening as we speak right in the business. You see countries that we thought the pandemic was behind, especially in far East, that the pandemic is going back in very local situations, but still impacting both the actual supply chain and also consumer perception, right? We're seeing this here in the U.S obviously, as you know we're all familiar with it. So first it was the Northeast.

Now it's other parts of the country that are being severely impacted by the infection. And that obviously impacts our organization, because we operate within a community, right? And obviously the number of impacted associates in our business it's a consequence of the community infection. So that puts a lot of pressure on our supply chain as well. So, hopefully that gives you a sense of the different variables, and the fact that this is going to be a roller coaster, if you want going forward. I think we're getting much better at managing our supply chain within this complexity. We're hiring more people, we're training more people, we're making sure that we can maintain the supply chain in any circumstance, but it's still -- it's pretty complex as you can imagine.

Operator

Your next question comes from the line of Bryan Spillane of Bank of America.

Bryan Spillane

Hey, good morning, everyone. And I hope everybody is doing well. So my question is just related to the COVID related expenses in the quarter, and you were at $378 million for the quarter. And I think if I've got it right in the 10-Q about $224 million of that was employee compensation expense. So I guess as we're trying to frame the size of the expense in the back half of the year is $378 million a good run rate? And as we're looking at the components of this expense, maybe if you could help us just walk through what we should be looking at as recurring for the next 3 or 4 quarters and what might fall off?

Ramon Laguarta

Hugh, you want to try that -- this one?

Hugh Johnston

Yes, happy to. Okay, Bryan. No, Bryan, that's not a good run rate going forward. The number going forward will be less than that. It will still be substantial, but nowhere near that number. If you break it into pieces things like personal protective equipment that that's obviously going to continue. Things like sanitation that that's going to continue. The allowance for doubtful accounts on customers, obviously it's going to be variable depending on what we learn over time and how the customer base responds to the current environment. Frontline and employee costs will still be there, but that number should be moderated pretty significantly going forward. So, we're not kind of getting into to piecemeal guidance, but that should give you a little of a sense as to the types of things that are going to be ongoing and the types of things that ought to diminish pretty significantly.

Ramon Laguarta

Yes, Bryan, the most important component, as you can imagine, or factor that impact is, is the number of infected employees that we have, right, and therefore the quarantine number. I mean, the biggest factor is when you have an employee that is -- that's got the virus or supposed to have the virus, then we quarantine a lot of people, that's the number one driver of cost. And obviously that will depend on the evolution of the pandemic in different parts of the world. So right now, Hugh, I think mentioned the different components and how we're thinking about it, but obviously if the pandemic goes up massively, then that cost will go up.

Operator

Your next question comes from the line of Andrea Teixeira of JPMorgan

Andrea Teixeira

Thank you and morning. I hope you're doing well. And I understand that this is not a straight line and your comment that, obviously the emerging markets is the main question mark, but could you help us understand how you left the second quarter in terms of cadence on the on-premises and convenience and gas? And so I'm trying -- just trying to bridge the low single digits in the three quarter that you guided for? Thank you.

Ramon Laguarta

Hi, Andrea. Yes. Listen, just to give you a sense of how the different components I was referring to earlier impact the different channels. Obviously, mobility has a very direct correlation with smallest store sales, right? And in the U.S its convenience stores, around the world its other channels that play that same role, but we see a big correlation between mobility and convenience store or on-premise -- sorry, small channel performance. Obviously, as we went through the quarter, April was very low consumption in that channel. Second half of May, June was an improvement, substantial improvement in that channel. The away from home channel is much more complex, right? There's a lot of different need states that consumers are going after there. And so there was also an improvement overall throughout the quarter that is still substantially below last year. I mean, like a big number below last year and also different components of the channel with different levels of performance. So you see channels like transportation still very low, hospitality is still very low, universities closed. You saw restaurants coming back, especially more informal type of restaurants coming back, and more formal restaurants less so.

So you see different performances, Andrea, across the different channels. In terms of geography, China came back pretty quickly. I would say that almost in growth in the last part of the quarter. You saw Europe slower, the comeback of the -- both the kind of the small store channel and the away-from-home channel in Europe was a bit slower. We're seeing it better lately as people are starting to move around Europe and going on vacation to some areas in the South of Europe. So let's see how it evolves now. Obviously, there's less people moving around Europe compared to other years, but its improved. In the U.S we saw an improvement as I said in May, June in specialty, everything that had to do with smaller channels. Now, let's see how this latest news in the evolution of the pandemic in the South and the West of the country impacts those channels, and the decisions that regulators take in terms of protecting the overall community, right? So that probably gives you a sense of how this is impacted. As we see the pandemic evolving now into Africa, South America, parts of the Middle East, India, we're seeing obviously an impact in the traffic in stores and that drives the business. So it's still very fluid overall. It's an improvement versus the April timeframe, for sure. And that's why we're guiding to a small growth in the Q -- in the Q3.

Operator

Your next question comes from the line of Kevin Grundy of Jefferies.

Kevin Grundy

Hey, good morning, everyone. And I hope that you're doing well. Ramon, I had a strategy related question for you specifically around market share, because it certainly seems to be an area of greater emphasis on your leadership. And if I'm not mistaken also taking on a more prominent role in a management incentive structure as well. So with that as context, is that a fair characterization, number one. If so, how do you drive that behavior? How do you intend to prioritize innovation and premiumization and mix to support market share initiatives? And how do you balance that with the potential risk that this push on market share does not devolve into more promotional pricing, like particularly North America carbonated soft drinks where the industry has gotten away from that behavior now for a number of years. Thank you.

Ramon Laguarta

Thank you, Kevin. And that's a good -- it's a very good question. Yes, listen, the share of market is -- it's being central to our strategy, and it will continue so, right? It has been during the pandemic, one of the key principles that we have set for ourselves that we're going to try to improve market share. Obviously, we are trying to develop our market share position in a sustainable way. So it's more related to the strength of our supply chain, the strength of our go-to-market execution, our ability to innovate faster into spaces that we see consumer value, our customer relationships. Those elements that we think are sustainable, the part of our brands, obviously. And you saw us making a lot of investments in '19, both in capacity and infrastructure in stronger brands.

We innovated into new spaces, that's helping us navigate better the current situation and we're continuing to do so. There's some spaces in the market that are I think we will determine the share of market of the future. For example, I think e-commerce, if you see the growth of e-commerce, it is going to be quite strategic. I think whoever wins in e-commerce now and is able to capture those families that are trying this e-grocery service for the first time I think is going to win those families in the future. So we're investing heavily in trying to be the first in that channel and trying to -- and again, the investments that we made in the last few years, last year in particular, are helping us both from the data availability, the agility of our infrastructure to supply those channels, etcetera.

So e-commerce is a key area where we think we can gain market share. Second is, the strength of our DSD system and our ability to service the stores directly, I think is a capability that is quite unique. And it gives us the advantage to keep the supply chain going in spite of all the challenges we're all facing. So that's also an area where we plan to double down that improves our execution in store and the inventory in store. And that is also a sustainable advantage. The third one is brands. I know we had -- we're seeing consumers going back to brands that they trust. And we have quite a lot in many markets that consumers trust.

There's big brands that have been around for some time, we’ve modernized them, we’ve kept them relevant to the consumer. And then we're seeing spaces, like healthier parts of the consumer demand where we have a lot of beautiful brands as well and we're reinvesting in those brands, either the zero prepositions in beverages, both Pepsi, Mountain Dew, Gatorade, we're investing a lot in those parts of the portfolio and they keep growing. And also in snacks with brands like Off the Eaten Path or Smartfood or the all the Simply range or PopCorners or whatever. So there's a lot of spaces where we think that we invest in those spaces, we're going to capture market share for the future.

The other one we're investing very substantial amounts and it's working very well for us is SodaStream, right? SodaStream is a beautiful business for this situation we're living today. So we -- consumers don't have to leave their houses. They have perfect choices. We're putting our Pepsi brands in the SodaStream model in Europe, and it's working very well. We're investing in those. So it's sustainable long-term market share across multiple parts of the value chain that I think is going to give us a stronger -- is going to make us a stronger company going forward. So that's how we're thinking about share of market and sustainable share of market.

Operator

Your next question comes from the line of Bonnie Herzog of Goldman Sachs.

Bonnie Herzog

Thank you. Good morning, everyone. I had a question on your price mix of 1.5% in the quarter, which was better-than-expected, especially for PB&A, where your price mix was up 3%. So hoping you could drill down on some of the key drivers of this. I guess, I'm trying to understand the strength in your price mix given the negative channel mix shift, and then I assume negative packaging mix. So, with the strong price mix in PB&A, a function of lower promos in the quarter? And then really how sustainable is this positive price mix going forward, especially in this environment? Thanks.

Ramon Laguarta

Hugh, do you want a go at this?

Hugh Johnston

Sure. Happy to, Ramon. Hi, Bonnie. Yes, price mix at 1.5% for the company, obviously that that's a complicated number because it's global and sort of incorporates almost everything. Going a little bit deeper on PB&A, I think the primary factors were around less promotional depth than what we had seen in the past. I think frequency is pretty similar, but the depth wasn't quite there. Obviously, supply can -- supply chains were a bit constrained in that regard. So it didn't make sense to go as deep. So I think that that's the biggest factor.

Operator

Your next question comes from the line of Vivian Acer of Cowan.

Vivien Azer

Hi. Thank you. Good morning. Ramon, I appreciate your commentary around investing behind emerging brands and relevant brands like SodaStream. Just hoping for either you or Hugh to comment on the reduction in nonessential advertising and really just reconciling that. It seems like perhaps, the COVID recovery is taking longer than perhaps we would have anticipated when you reported earnings a quarter ago. So just curious to hear how you're thinking about that line item. Thank you.

Ramon Laguarta

Advertising is a key component of our strategy, Vivien, and it will continue. We still think that it's critical that we continue to use that lever to drive penetration of the brands and trial and just the image of the brand. So that is -- hasn't changed at all. There has been a bit of an adjustment, especially in some markets early on in the quarter, because the truth is that the consumer habits change a lot and we modify some of the A&M decisions. We also have become a bit more selective about the type of A&M that we're doing and some of the activities that had lower ROI where we're stopping them and we're putting more money against the initiatives that had more return on investment.

So I think we are -- we become better, and sometimes a crisis helps to be more selective and to be more impactful and to kind of generate internal momentum against simplification and against focus against fewer and bigger. And that's what we're trying to do. It's -- as you see from our results it is working quite well. Obviously, balance of the year we continue to invest as we see the consumers moving around and demand for our products starting to be a bit higher, yes, we'll keep investing and -- again, not trying to lose that focus on fewer and bigger and trying to minimize the lower ROI initiatives that sometimes we have in what is a very large business. Yes, so that's how we're thinking about A&M. Hugh, I don't know if there's anything else from your side.

Hugh Johnston

Yes. The one thing I wanted to add as well, Ramon is, Vivien, as we've talked about being stronger, part of that has been building some more capability to do A&M in-house. It's got a couple of benefits. One, it improves our speed; and number two, it has proven to be more efficient over time. So we can actually get same or more value for less money, which is obviously a terrific outcome for the company.

Operator

Your next question comes from the line of Lauren Lieberman of Barclays.

Lauren Lieberman

Great. Thank you. I felt like in the prepared remarks that the tone around kind of cost control and the investment was maybe a little bit different than it was 3 months ago. I would describe it maybe it's a little bit more measured where last quarter you were talking about staying on the attack. Of course, still a strong criteria for ROI. And this quarter we're talking about zero based mindset, earning your budget. So I guess by no stretch do I think that you didn't anticipate that the environment was going to be rough. I think that was very clear 3 months ago and it's remained as such. But what is it that's really changed in your thinking in your approach then versus now. Yes, just it did feel a bit different, still very proactive, but sort of from a different step. Thanks.

Ramon Laguarta

Yes. Good, Lauren. The idea -- the concept of holistic cost management that we put early on, I mean, it was early last year as one of the principles of how we would get stronger, it's a capability we've been, I would say investing and focusing everybody around the company in this concept of holistic cost management, which basically it is the concept that you're referring to, which is you earn your budget every year. And we're trying to be much more granular around composition of the budget and what really is required now going forward versus what it was required, let's say last year or two years ago, and going through that process of rethinking the budget every year, and reallocating costs against what's going to give us the best return in the year and going forward. So that capability is there.

We're emphasizing it more, because obviously what we're seeing is that there is a challenging time. We're having to put $500 million of costs in COVID related expenses. We will have to put some more going forward. So, we have to find ways to fund that, and we have to find ways to continue to invest in our brands and our commercial activities to keep growing and gaining market share. So we have to be super selective on where do we put the money in every single line of the P&L. So we're emphasizing that from the position that every cent has to work for the growth drivers of the company. So that is the principle that we're -- that is being adopted across the organization in every single market.

On the other side, we are seeing that -- potentially as unemployment goes up in several parts of the world. I think companies will have to be much more cautious about obviously the resources that we use and how do we use those resources. So I think this capability is going to come very helpful for us. And that's what we're talking about in the sense of, let's be very diligent in how we look at every single line of our budget and how we reallocate those monies into the highest return on investment growth drivers. And with that, I think we'll be successful in gaining share of market and driving growth hopefully flowing that growth back into profits for the sustainability of the company.

Operator

Your next question comes from the line of Laurent Grandet of Guggenheim.

Laurent Grandet

Hey, good morning, Ramon and Hugh. And first congratulation on different specific -- very specific initiatives you are taking to address Black Life Matters. I would like to focus my question on the energy category in the -- in your prior remark, you mentioned the bank business was already almost fully transferred to your system as well as much quicker than most expected, so that's great. Could you please tell us what was the retailers' reaction to the push you’re making in the energy category and what they expect from PepsiCo and also regarding ROCKSTAR specifically how long do you think it would take to reenergize the brand? Thanks.

Ramon Laguarta

Yes. Hello, Laurent. Yes, good question. Listen, yes, we are almost completed with the integration of the Bang brand into our selling systems. It's been a complex process because Bang had between 250, 300 distributors across the country. So as you can imagine the details of that transition has been quite exhausting for Kirk and the beverage team, but they've done a great job of integrating that brand. And also the same with integrating ROCKSTAR in parts of the country that we didn’t distribute the brand in the past. So that is, I would say, by the end of July, that will be almost complete and then we’re ready to go.

From the customer relationship point of view, I think the customers see us as a very good partner that can bring insight, that can bring activation to the brands, that can bring better store execution, a lot of drivers that we know -- we can deliver and will drive growth for the category. So I would say the reception from our retail partners has been very positive and early signals of it is that they’re -- we're getting support and that we’re executing with good quality. And it -- the fact that we have now a full portfolio that has Bang, ROCKSTAR and some of the Mountain Dew brands as energy offer, it is a positive development for us versus having smaller brands. So we're seeing positive signals.

And as we said last call in April, this is very strategic for us. We continue to focus on the three components of the strategy, driving revitalizing

ROCKSTAR, and you will see some news coming out of ROCKSTAR soon, both on the advertising front and the packaging front, reformulation, integrating Bang into our business and there's distribution opportunities and velocity opportunities in some parts of the country. And then moving Dew with more intentionality into spaces of energy that are not well covered we think today, and that we can do a better job. Obviously, we continue to be very focused on Starbucks. Starbucks is a critical part of our energy strategy and Tripleshot, Doubleshot are -- is booming and even more now with people at home. So we're seeing all of those components working for us in the future. We're very optimistic about this part of the business and certainly there's a lot of energy in our teams to get it done. And the team is doing a fantastic job by the way.

Operator

Your next question comes from the line of Rob Ottenstein of Evercore.

Rob Ottenstein

Great. Thank you very much. So wondering if you could talk a little bit about how your dialogue with retailers has evolved from March through June, July, how that -- how that's changed? Maybe also touch on the various things that you were doing to help retailers get through this and where things are in terms of shelf sets. A lot of the -- or most of the spring resets never really happened, when do you expect that to happen and how you look positioned for those? Thank you.

Ramon Laguarta

Right. Good question, Robert. Listen, in our principles, and as we started the pandemic, taking care of our associates was priority number one, and taking care of our customers was priority number two, similar to number one. So I think that was the focus of the company trying to even elevate even more the partnership with our -- with all our customers across any country around the world. So that is a focus of the teams. I think we've been agile, we’ve been closer to the -- to our partners.

We've been transparent with our supply chain challenges in some cases. But I would say in general, we're getting very positive comments from our partners on how we are talking to them, helping them to stay in stock and on time, driving business for both and evolving for the future of demand especially around the space of e-commerce that I mentioned earlier, that it's clearly growing at a very fast pace, faster than we had all forecasted about half a year ago. So that's the dynamic.

We've made some choices in our supply chain to -- we've reduced some of the tail of our portfolio. We’ve discussed that with our partners, retail partners and we both agreed that it's probably the best thing to do to eliminate the less -- let's say, the smaller SKUs in the portfolio to maximize the best selling SKUs and be in stock. As I said earlier, our DSD system, I think is a fundamental advantage in the way we're able to service our customers. And I think they appreciate that we've made the effort adjusting delivery schedules and increasing delivery schedules to make sure that we keep our brands in stock and we help obviously our partners. So that is the level of the commitment we have with our partners. And I think the dialogue is in a very good space and I think this situation will give us a strategic relationship with our partners that I think we had in the past, but it's probably at a higher level today.

Operator

Your next question comes from the line of Steve Powers of Deutsche Bank.

Steve Powers

Yes, great. Thanks. So I know you've sped up your R&D processes considerably over the course of time. But as we think about today's consumer behavior relative to just a few months ago, and the difficulty of predicting where we'll be in the quarters ahead, how is that impacting, how your teams are thinking about new plans and product introductions, even looking out to 2021? Because I think those plans might differ in a world where we're at home versus in a world where we're on the move. And I guess, is there a way to think about that, or is it that your cycle times on new products at this point are such that you feel like you can keep pace with the change that we're all going through right now?

Ramon Laguarta

Listen, I think we have improved a lot, as you mentioned. We have segmented our innovation processes in different quick cycle innovations, more lift and shift, more strategic innovation that takes longer. So, we have a good segmentation of processes across the company and ways of investing and dealing with innovation through different stage, case, approvals and everything related to the size and the velocity that we want from each type of innovation. Yes, the truth is that we're never satisfied enough, right? I mean, so the sense of urgency in anything we do is going up and I think we have improving innovation and we want to improve even more. So from that point of view, we'll continue to make the adjustments to some of the process required. In terms of what you're saying, are consumers changing meaningfully some of their needs, and are we adopting quickly enough?

I would say there are a few spaces where we're trying to move quickly. Immunity being one, and we're seeing that our consumers are looking for immunity more, our juice business is booming and we think that -- we can come up with other beverages and even snacks that go against that need. Our snacks, business are being part of meals. We're seeing that more and more. Consumers are cooking more at home and that means that obviously brands like Quaker or some of our Quaker portfolio is being incorporated into meals. But also some of our snacks, like Tostitos, obviously Sabra, and some other brands are being used for meals, right? A Lay's or Ruffles.

We are going to obviously move our advertising and our consumer support in terms of giving them recipes and helping them with solutions that, kind of go incentivize that habit. So, there's a marketing element to this. There's also an innovation element to these in terms of packaging or other solutions that we can help consumers moving to that space. So, yes, we're moving quickly. We are never satisfied with our speed of our capabilities. And if you hear the conversations with our internal teams, speed is a key word and we're trying to get better at that. We're trying to be the -- as close as we can to start up with a scale of a large company. So that is one of our aspirations. And I think it's going to be a long journey of improvements, but we're in the right direction.

Operator

Your final question comes from the line of Sean King of UBS.

Sean King

Hey, good morning. Hugh, you mentioned a $3 billion in the full year e-com, or roughly -- probably 5% of sales, I guess, that doubled in North America in the quarter. How much of that is transitory due to the stay-at-home dynamics, or can some of that continue?

Hugh Johnston

Yes. Hey, Sean, happy to get in on that one. A couple of things. One, just to be clear that $3 billion number is a retail sales number. It's not a net revenue number for PepsiCo, so you've got to discount it for that. Number two, that is the great question. Not clear at this point. I think a lot of that will be dependent on how much consumers or shoppers find that the experiences is very good for them. Out of stocks, obviously, it's -- is always going to be a big question for them, because if you get a lot of out of stocks, you have to go to the store anyway, which sort of defeats the purpose. And then the other one is to the degree that they're paying any kind of an up charge is, is it worth the money? So, don't have a real good projection on that right now. We're prepared for it to stay large and we can manage that well, if need be the case, both from a -- an execution perspective, as well as from a financial perspective, but not clear at this point,

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to Ramon Laguarta for any closing remarks.

Ramon Laguarta

Yes. Thank you everyone for joining us today. It's great to hear from everybody. And for the confidence you've placed in us with your investments. We hope you'll stay safe and healthy. And we look forward to updating you as the year progresses. Thank you again, and have a great day.