Mini**Case 2 PepsiCo’s Indra Nooyi: Performance with Purpose**

**DISCUSSION QUESTIONS**

1. **What grade would you give PepsiCo CEO Indra Nooyi for her job performance as a strategic leader? What are her strengths and weaknesses? Where would you place Nooyi on the Level-5 pyramid of strategic leadership (see Exhibit 2.2), and why? Support your answers.**

*PepsiCo’s CEO Grade: Students will have a variety of answers. Here is an example of an appropriate one.*

*Nooyi gets an A- at this point. She clearly is well aware of PepsiCo’s internal resources and capabilities and how the external environment threatens the firm. Her actions to restructure and diversify have cleared the firm’s path and opened significant opportunities in the food industry, where PepsiCo has leveraged its capabilities and gained a competitive advantage. After initially disappointing results, PepsiCo has, over the past six years, consistently out performed Coca-Cola Company and this is reflected in the respective share prices. However, revenue growth over the past few years has been flat, as the market for carbonated soft drinks has come under pressure. (It should be noted here that PepsiCo has a greater weighting in snack food and so is less vulnerable than Coca-Cola to the weakening market for carbonated soft drinks.) Despite this, Nooyi’s corporate social responsibility strategies, while initially criticized for not producing results, now seem to be paying off. PepsiCo has successfully anticipated changes in public attitudes and state regulation and has staked out favorable positions in its markets.*

*Nooyi would be placed at Level 4 or 5 on the Level-5 pyramid of strategic leadership. She has certainly presented a distinctive and different vision and mission to guide PepsiCo to superior performance (i.e. outperforming Coca-Cola). That would at least make her a Level-4 leader. A Level-5 leader builds enduring greatness through willpower and humility. Nooyi has moved the company in an entirely different direction, leading through example and conviction. The only question here is whether PepsiCo’s competitive advantage will endure. There may be some concerns about the lack of significant revenue growth over the past few years, but that would be the only reservation about classifying her as a Level-5 leader.*

1. **The first few years after Indra Nooyi took over as PepsiCo’s CEO and implemented *Performance with Purpose*, the company underperformed archrival Coca-Cola Co. by a wide margin. What should a strategic leader do if his or her vision does not seem to lead to an immediate (financial) competitive advantage? What would be your top three recommendations? Support your arguments.**

*Recommendations for leaders when their vision does not provide an immediate competitive advantage include:*

* **Continue to Adapt.** *When* Fortune *asked CEOs, including Nooyi, to give advice, her response was that you should never stop learning. The most successful leaders were lifelong students. Plans are rarely perfect, so strategy should be modified based on feedback and learning.*
* **Be Patient.** *When attempting something that has never been done, leaders should realize that their efforts might take time. Indeed, Nooyi went through several years of disappointing results at PepsiCo, before “Performance with a Purpose” began paying off. This does require a supportive board of directors, who will also have to exercise patience, even as investors are clamoring for faster results.*
* **Communicate.***Part of developing a vision is to communicate clearly to stakeholders a change story and a sense of urgency. Merely, having a vision is insufficient if people within the firm do not adopt it. The CEO must have a clear and consistent message and take actions (promotions, budgeting, etc.) to reflect the new priorities.*
* **Achieve Quick Wins.** *Demonstrate the viability of the new strategy and get buy-in through achieving quick wins. This may necessitate setting some easy to achieve goals purely to demonstrate that the new strategy is producing results.*

1. **Do you agree with Indra Nooyi’s philosophy that “performance and purpose are intimately linked and you can't do one without the other”? Support your arguments. Apply the people, planet and profits model of sustainable strategy (see**[**Exhibit 5.9**](https://habitat.inkling.com/api/files/sn_4015/trunk/head/s9ml/minicase03/415c22565518473b8fdc88678dae3568)**).**

***Yes****. Applying the three dimensions of the people, planet, and profits model of sustainable strategy. PepsiCo has outperformed expectations and produced good financial results (profits), while emphasizing social (people) and ecological (planet) performance as well. The latter two dimensions satisfy the broader stakeholder community and this is necessary for a firm’s long-term success. The company’s steadily increasing market valuation shows that investors view this positively.*

***No****. “Performance with Purpose” is a promising long-term strategy that could put PepsiCo in a very favorable position with its stakeholders (especially its customers). However, shareholders want to see their investment grow by more than the industry average and certainly more than the company’s direct competitors. Otherwise, there is an incentive for short-term investors to cash out and invest in a better-performing firm or a less risky asset. Even if the investor understands the long-term value of the strategy, there is a need for short-term results. (Fortunately, PepsiCo has consistently outperformed its competitors over the past several years, so even short tem investors should be happy with the success of their strategy.)*

1. **PepsiCo’s investors require the company to grow about five percent or $3.5 billion a year. PepsiCo’s top-line, however, remained flat for the last few years. Where would future growth for PepsiCo come from?**

*There are multiple options for PepsiCo to drive growth, including:*

* **Invest***. Recognition that improved performance results from investment in initiatives to both increase revenues and reduce costs. In 2012, PepsiCo announced multiple initiatives to enhance shareholder value including major investment in its brands, investments to increase productivity, and the reduction of capital investment to improve return on invested capital (e.g., raising the hurdle rate for capital investment). The emphasis on brands appears to be paying off with PepsiCo now having 22 brands with sales over $1 billion.*
* **Go International.** *The North American market is largely saturated, so growth can be achieved by increasing PepsiCo’s presence in emerging markets. Recognition of this is reflected in PepsiCo investing $5.5 billion in India for new products and manufacturing plants. China and Brazil represent other countries that PepsiCo could focus on with investments.*
* **Go Healthy.** *Consistent with social trends and “Performance with Purpose” PepsiCo could continue to invest in providing a healthier product line, or obtain growth from new, related products.*
* **Partner.** *Work with other companies to highlight its products and increase demand. For example, PepsiCo has collaborated successfully with Taco Bell to launch Doritos Locos Tacos.*

1. **Some activist investors are putting pressure on Indra Nooyi to split PepsiCo into two standalone companies, with one focusing on beverages (Pepsi, Gatorade, Tropicana); the other would focus on snack foods (such as the Frito-Lay brand). What is the idea behind this corporate strategy? Do you think this move would add value for shareholders? For consumers? Other stakeholders? Why or why not?**

Shareholders

*Some investors believe that separating PepsiCo’s beverage and snack food businesses will allow each to streamline operating, marketing and advertising costs. Overheads would also be reduced. They also feel that the carbonated soft drink business is lagging behind snack foods, dragging down the latter. A stand- alone beverage firm would be able to function more effectively, with management focused on its success alone. Snack foods would be unleashed to perform even better. This would result in a net gain for shareholders.*

*PepsiCo on the other hand believes that the synergies of a single corporate entity—cross marketing, bulk purchase of inputs and packaging materials, negotiating with the same buyers, etc. —outweigh any benefits that may be derived from this split.*

Consumers

*If a split results in efficiencies, consumers may benefit from having some savings passed on to them. Separate firms, each focused on their own product line, might also develop new products that consumers find attractive.*

*A split may mean that cross promotions and other partnerships that benefit the consumer will no longer be available. If the split results in abandonment of “Performance with a Purpose,” the push for healthier products may be weakened, hurting consumer health over the long term.*

Other Stakeholders

*A split may also impact other stakeholders. Buyers will now negotiate with two smaller firms, and will be in a stronger position. Communities could be affected by investment decisions, both positive and negative. A drive for efficiencies could negatively impact the workforce.*

Additional resources:

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Yakola, Doug. 2014. “Ten Tips for Leading Companies Out of Crisis.” McKinsey & Company, March 2014. <http://www.mckinsey.com/insights/corporate_finance/ten_tips_for_leading_companies_out_of_crisis>.

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Morningstar. PepsiCo financials.

<http://financials.morningstar.com/ratios/r.html?t=PEP>

Trefis Team. 2014. “Is PepsiCo Headed for a Split?” *Forbes,* August 28, 2014. http://www.forbes.com/sites/greatspeculations/2014/08/28/is-pepsico-headed-for-a-split/#29f5c0c4584a.