

UNIVERSITY OF FORT HARE

**STRATEGIC MANAGEMENT
BEC 325/325E**

**DEGREE EXAMINATION
NOVEMBER
2024**

Time: DURATION: 3 HOURS
Subject: BEC 325/325E
Marks: 100

Internal Examiners

Dr M. Ford
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INSTRUCTIONS

1. You have an additional 20 minutes' reading time.
2. Answer ANY FIVE QUESTIONS.
3. LABEL your ANSWER BOOKS correctly.
4. Enter the correct question number for each answer.
5. Enter the numbers of the questions answered on the front cover of your answer books.
6. Indicate the number of answer books handed in on the front cover of each book.
7. Write legibly.

Read the case study and answer the questions that follow.

PepsiCo Inc.

PepsiCo, a leading multinational food and beverage corporation headquartered in Purchase, New York, operates in over 200 countries and territories. With a portfolio of world-famous brands such as Pepsi, Lay's, Tropicana, Gatorade, and Quaker, PepsiCo has strategically positioned itself as a dominant player in the food and beverage sector. The company competes with global giants like Coca-Cola, Nestlé, and Unilever, navigating complex supply chains, evolving consumer preferences, and stringent regulatory environments.

PepsiCo's robust resources and capabilities drive its global competitive advantage and allow it to sustain leadership in the food and beverage industry. PepsiCo operates hundreds of manufacturing plants worldwide, ensuring that its products reach both developed and emerging markets efficiently. The company also has a well-established distribution network, which allows it to leverage economies of scale.

Early Beginnings and Growth (1960s - 1990s)

PepsiCo's roots go back to the early 1960s, a time of immense competition and market consolidation in the beverage industry. Following the merger of Pepsi-Cola and Frito-Lay, the company embarked on a path of rapid growth and diversification. During the 1970s, PepsiCo expanded into the international market, adapting its offerings to regional tastes and preferences, securing its status as one of the global leaders in the food and beverage sector. The company's core strength during this time was its ability to maintain strong relationships with suppliers and distributors, ensuring a steady flow of products into the markets.

PepsiCo also introduced aggressive advertising campaigns, targeting a younger audience and branding itself as a challenger to Coca-Cola, a direct competitor. The "Pepsi Challenge" campaign of the 1980s marked a major turning point, as PepsiCo successfully captured more market share in key regions like the United States and Europe. While PepsiCo's early strategies revolved around market penetration, it also began to diversify its product portfolio by acquiring Tropicana in 1998, marking its entry into the fruit juice market.

Expansion and Diversification (2000 - 2010)

The early 2000s witnessed PepsiCo adopting a more diversified growth strategy. While carbonated beverages were still a mainstay, the company identified emerging trends in health-conscious consumer preferences. In response, PepsiCo expanded its product lines to include a broader range of healthy snacks and drinks. The acquisition of Quaker Oats in 2001, for instance, was a strategic move that helped PepsiCo break

into the healthy foods market, combining its operational expertise with Quaker's established brand.

Around this period, PepsiCo also embraced technological advancements, investing heavily in R&D to create low-sugar and low-calorie products to cater to a health-conscious market. Furthermore, PepsiCo worked on packaging innovations to reduce plastic usage and align with sustainability goals, which it considered a competitive advantage in light of increasing environmental concerns globally.

PepsiCo's expansion during the 2000s wasn't limited to organic growth. The company sought strategic partnerships and alliances to expand into high-growth markets, especially in Asia and Latin America. PepsiCo worked on building new distribution networks and partnered with local firms to gain traction in these regions. During this decade, PepsiCo's leadership placed greater emphasis on collaboration and corporate social responsibility (CSR), a focus that helped the company position itself not just as a profitable business but as a responsible global citizen.

Sustainability, Innovation, and Strategic Shifts (2010 - 2020)

As the 2010s progressed, PepsiCo further embraced innovation and sustainability as core pillars of its strategy. With consumers increasingly concerned about their health and the environment, PepsiCo launched new product lines emphasizing organic ingredients, plant-based options, and reduced packaging waste. The company rolled out initiatives like recyclable packaging and expanded its use of biodegradable materials in its manufacturing processes.

PepsiCo's acquisition strategy has played a crucial role in expanding its product portfolio. The purchase of Bare Snacks and BFY Brands demonstrates PepsiCo's move into the organic, non-GMO, and healthier snack segments. Additionally, its acquisition of SodaStream allows it to tap into the growing trend for sustainable and DIY carbonated beverages. This strategic move reflected the company's broader ambition to reshape its portfolio and move towards a "green economy" model, a bold strategy in a competitive and ever-evolving market.

To stay ahead of competitors like Coca-Cola and emerging local brands, PepsiCo emphasized the importance of technological innovation and digital transformation. Investments in big data, AI-driven marketing, and supply chain digitization have significantly streamlined operations and enhanced customer engagement. PepsiCo also explored innovative solutions enhancing its digital distribution and e-commerce platforms for product delivery by partnering with e-commerce platforms to meet the growing demand for online shopping, especially during crises like the COVID-19 pandemic. Moreover, PepsiCo's direct-to-consumer platforms like "snacks.com" are an attempt to leverage the shift to online shopping.

Strong leadership

PepsiCo's management structure shows that strategic decision-making flows from the global leadership team to regional and divisional managers. There is an emphasis on collaboration between levels to adapt to evolving markets, achieve operational efficiency, and ensure sustainability goals are met across its global operations. The company operates across several business segments, including Frito-Lay North America, Quaker Foods North America, PepsiCo Beverages North America, Latin America, Europe, Africa, the Middle East, South Asia, and Asia Pacific, Australia, New Zealand, and China.

At the helm is CEO Ramon Laguarta, who succeeded Indra Nooyi in 2018. His leadership is focused on driving growth through innovation, sustainability, and global market expansion. Regional and product category managers implement PepsiCo's global strategies, ensuring that products resonate with local markets while maintaining consistency in brand quality. Frontline managers are responsible for day-to-day operations such as production, distribution, and sales. These managers ensure the efficient execution of corporate strategies and maintain quality standards across PepsiCo's massive supply chain.

PepsiCo promotes a corporate culture of collaboration, innovation, and diversity, focusing on inclusivity and global sustainability. The company's culture encourages employees to innovate through a philosophy PepsiCo calls "Performance with Purpose," which balances long-term business goals with ethical leadership and community engagement. This approach is ingrained in every aspect of PepsiCo's operations, from product development to corporate social responsibility (CSR) initiatives.

The business context

Over the years, PepsiCo has adapted to both market opportunities and challenges through effective strategies and innovative approaches. The company operates in highly competitive markets, particularly in the beverage and snack food sectors, where the rivalry with key players such as Coca-Cola remains intense. The competition in these markets has required continuous investment in branding, product differentiation, and distribution channels to maintain and grow market share. PepsiCo focuses on differentiating itself by offering premium products with health-conscious labels, environmentally-friendly packaging, and a wide variety of snacks and beverages. The emphasis on sustainability and corporate responsibility sets PepsiCo apart from many of its competitors, but it has to constantly be aware of smaller, health-conscious startups which can disrupt local markets by capitalizing on niche trends like organic products or sustainable packaging.

Due to its size, PepsiCo's has good partnerships with suppliers and is able to leverage economies of scale. However, fluctuations in commodity prices and supply chain disruptions, such as disruptions in sourcing raw materials or manufacturing delays can pose risks. Weather-related events, like droughts or floods, can affect agricultural commodities (e.g., corn, potatoes) that PepsiCo relies on. The company mitigates these risks by diversifying its supply sources, maintaining buffer stocks, and investing in sustainable farming practices to reduce dependency on high-risk regions. PepsiCo's supply chain enables it to scale its products worldwide. Through innovative technology and logistics partnerships, PepsiCo maintains an efficient and reliable supply chain that responds to market demands quickly. PepsiCo's extensive marketing and advertising strategies, which feature celebrity endorsements and cutting-edge digital campaigns, allow it to maintain a strong consumer connection globally.

On the customer side, large retailers such as Walmart, Costco, and Amazon hold considerable leverage in negotiating prices and demanding discounts due to their size and influence in the market. Also, changing consumer tastes, particularly the growing preference for healthier alternatives like plant-based snacks and beverages, are shaping customer demand. PepsiCo has responded by expanding its health-conscious product offerings, such as Bubly (sparkling water) and acquisitions like SodaStream. It also offers organic and plant-based foods through its Quaker and Frito-Lay brands. The rise of veganism, clean labels, and reduced sugar content is reflected in PepsiCo's pivot toward snacks like Bare Snacks (organic fruit and vegetable chips). Additionally, PepsiCo is active in marketing campaigns that reflect cultural diversity, promoting healthy choices while maintaining its core focus on enjoyment and taste.

PepsiCo has expanded its footprint in emerging markets by tailoring its products to local tastes and needs. For instance, it launched products like Quaker Oats Idli Mix in India and Lay's Chinese Spice to cater to regional preferences. This localization strategy has been instrumental in helping PepsiCo maintain its leadership in markets outside North America. These emerging markets present significant growth opportunities for PepsiCo, although challenges such as fluctuating currency rates, political instability, and varying economic conditions must be carefully managed. The company's expansion strategy is often balanced by strategic alliances and partnerships with local entities, enabling it to navigate complex local markets while building on its brand's global strength. PepsiCo faces various political challenges as a global company operating in over 200 countries. Trade restrictions, tariffs, food safety regulations, and public health policies (such as sugar taxes) directly impact its business, especially in countries like Mexico, the UK, and the US, where health-related regulations are intensifying. Changes in political leadership and trade policies (e.g., Brexit and US-China trade relations) also affect PepsiCo's ability to source materials and move goods across borders. Being a global company also makes them vulnerable to exchange rate fluctuations, inflation, and changing consumer incomes.

PepsiCo must navigate different country's regulations particularly regarding food safety, product labeling, and advertising laws. The company must also adhere to local regulations related to the marketing of sugary drinks, especially in countries where childhood obesity is a growing concern. Legal issues regarding intellectual property and sustainability commitments (such as carbon emissions reduction targets) further shape the legal landscape PepsiCo must navigate. In addition, regulatory pressures on sugar-sweetened beverages in countries such as Mexico (where a sugar tax was introduced), the UK and South Africa (sugar tax levy) directly impact sales in the beverage category. The company must also navigate trade policies and tariffs, which affect its global supply chain. The global economic environment has a significant impact on PepsiCo's performance. PepsiCo addresses these risks through a robust compliance program, which includes regular audits, legal training for employees, and collaboration with local authorities to stay up-to-date on changing regulations.

With iconic brands like Pepsi, Lay's, Gatorade, and Tropicana, PepsiCo enjoys significant brand loyalty and consumer trust. These brands represent billions of dollars in market value. PepsiCo's investment in product development is integral to maintaining its competitive advantage. It consistently launches new, innovative products that align with health and sustainability trends. For example, its strategic partnership with Beyond Meat to develop plant-based snacks is a move to stay ahead of the curve. These alliances help PepsiCo access new markets and enhance its innovation capabilities.

Corporate Governance and sustainability

The company promotes ethical business practices through strong corporate governance, with an emphasis on inclusivity in the workplace. PepsiCo's focus on diversity in its leadership team and across all levels of the organization further reflects its commitment to creating a positive social impact. For example, PepsiCo is one of the few companies to appoint female executives to key leadership positions, showcasing its dedication to gender equality. PepsiCo's Global Code of Conduct reinforces the importance of integrity and social accountability, guiding employees to make decisions that consider the long-term impact on society and the environment. PepsiCo's governance structure is designed to ensure accountability and transparency across all levels of the organization. The company has implemented several mechanisms to maintain stakeholder trust, particularly through its corporate governance and sustainability frameworks.

The company's commitment to responsible leadership is further illustrated through initiatives like its Sustainability Report, which outlines PepsiCo's goals for carbon footprint reduction, water conservation, and responsible sourcing. These strategies have helped PepsiCo position itself as a leader in corporate responsibility and sustainability. Sustainability is integral to PepsiCo's long-term strategy. Through initiatives such as Pep+ (PepsiCo Positive), the company aims to reduce its water

usage, lower carbon emissions, and create more sustainable packaging. PepsiCo is focusing on creating a circular economy with its commitment to 100% recyclable packaging by 2025. Furthermore, PepsiCo invests in climate action programs, particularly in regions affected by water scarcity like India and Africa, where water management has become essential.

PepsiCo's governance structure ensures that its Board of Directors maintains oversight of major strategic initiatives, risk management, and sustainability goals. The board plays a pivotal role in balancing the company's financial goals with the broader concerns of various stakeholders, including consumers, investors, and local communities.

The COVID-19 pandemic tested PepsiCo's resilience, as the company had to quickly adapt to unprecedented disruptions in its supply chain and shifts in consumer behavior. PepsiCo's ability to pivot its strategies during the pandemic demonstrates the robustness of its risk management framework. By focusing on e-commerce channels, ramping up digital marketing efforts, and ensuring employee safety, PepsiCo managed to weather the storm effectively. By aligning its strategic objectives with rigorous governance structures and risk management practices, PepsiCo is able to maintain accountability, track performance, and mitigate emerging risks. PepsiCo's risk management strategy is built around identifying and mitigating risks that could affect its ability to achieve its business objectives. The company's Enterprise Risk Management (ERM) framework allows it to assess risks on both a macro and micro level.

PepsiCo places significant emphasis on corporate social responsibility (CSR) and sustainability to manage its reputational risk. Consumers today demand more from companies in terms of ethical practices, environmental stewardship, and social responsibility. PepsiCo mitigates reputational risk by implementing initiatives such as reducing plastic waste, promoting healthy lifestyle products, and supporting community programs across its operating regions. For example, its efforts to use recyclable packaging and reduce carbon footprint help protect the brand from potential backlash related to environmental concerns.

PepsiCo continuously evaluates the assumptions upon which its strategies are based. These include assumptions about market trends, consumer behavior, and competitive forces. For example, the growing consumer demand for healthier options has led PepsiCo to revisit and adjust its styles, such as expanding its product lines in low-sugar beverages and sustainable packaging. Regular environmental scanning, like monitoring the effects of climate change and evolving regulations, also falls under premise control.

PepsiCo uses various key performance indicators (KPIs) and metrics to track how well its strategies are being executed. The KPIs range from financial measures (revenue,

profitability) to non-financial metrics (sustainability goals, brand equity). For example, its global expansion into emerging markets is closely monitored through sales growth data, while its progress toward using 100% sustainable packaging is tracked by analyzing manufacturing and supply chain data. Implementation control helps PepsiCo adjust its strategic execution to respond quickly to challenges or opportunities. PepsiCo conducts broader, ongoing strategic surveillance to detect unanticipated developments in the external environment that could impact the business. This includes monitoring technological advancements (e.g., growth of e-commerce and digital marketing), competitive intelligence, and consumer trends (like the rise in veganism or plant-based diets). By maintaining a proactive surveillance system, PepsiCo is able to capitalize on new opportunities or mitigate emerging threats before they significantly affect the company.

PepsiCo also has a crisis management framework in place for events like product recalls, supply chain disruptions, or geopolitical tensions. A recent example of special alert control was during the COVID-19 pandemic, when PepsiCo had to quickly adapt its operations by ensuring employee safety, reconfiguring supply chains, and ramping up its e-commerce channels to respond to changing consumer behavior.

PepsiCo actively engages with its stakeholders, including investors, employees, customers, and communities. The company provides detailed sustainability reports and financial disclosures to ensure transparency. Through initiatives like PepsiCo Foundation, the company supports educational programs, hunger relief efforts, and disaster response, contributing to its positive social impact. Engaging with stakeholders regularly helps PepsiCo maintain its reputation and ensures alignment between business objectives and societal expectations.

Present and Future Outlook

In recent years, PepsiCo has become a beacon of corporate responsibility in the food and beverage industry, championing initiatives related to sustainability, health, and community well-being. By integrating environmental, social, and governance (ESG) factors into its decision-making process, the company continues to align itself with the expectations of socially responsible consumers and investors. Moving forward, PepsiCo's strategy will likely focus on expanding its portfolio in emerging markets, leveraging technological advancements, and continuing its drive toward sustainability.

PepsiCo's leadership is confident that its long-term strategic initiatives, supported by a robust governance structure and focus on responsible leadership, will position the company to thrive in the coming decades.

Source: Case study adapted from various sources, including PepsiCo website, ChatGPT and Thompson et al "Crafting & Executing Strategy".

ANSWER ANY FIVE QUESTIONS:

QUESTION 1 [20 MARKS]

Using the Porters Five Forces framework, conduct an analysis on the industry that PepsiCo operates within. In your opinion, how well is PepsiCo navigating the market and the challenges they face? What recommendations can you make for improvements?

QUESTION 2 [20 MARKS]

Apply the PESTELG framework to conduct an analysis of the environment within which PepsiCo operates. Use examples and information from the case study.

QUESTION 3 [20 MARKS]

Discuss the different corporate and business strategies that PepsiCo has applied over the years, using evidence from the case study.

QUESTION 4 [20 MARKS]

Conduct an in-depth SWOT analysis of PepsiCo's current situation using evidence from the case study. In your answer, you should discuss how they can overcome any potential threats in the environment by leveraging their strengths.

QUESTION 5 [20 MARKS]

Analyse PepsiCo's internal resources and capabilities with examples from the case study. Discuss how these are linked to the company's competitive advantage.

QUESTION 6 [20 MARKS]

Using the theory on responsible leadership, discuss the important aspects of PepsiCo's leadership that link to the theory. Use evidence from the case study to highlight your understanding of these concepts. [10]

Discuss PepsiCo's organisational culture, and analyse how this links to their competitive advantage using evidence from the case study. [10]

QUESTION 7 [20 MARKS]

Discuss the company's approach to governance, control and risk. In your discussion, include an explanation of the different types of strategic control that PepsiCo has employed. Provide examples from the case study to highlight your understanding.

End of Paper

