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Sustainable Development at PepsiCo

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Sustainable Development at PepsiCo

“Great companies are built to succeed today, tomorrow, and well into the future. Our commitment to balancing excellent operating performance with sustainable business practices is a big reason PepsiCo has become one of the world’s top performing food and beverage companies.”ⁱ

– Indra Nooyi, Chairman and CEO of PepsiCo, in September 2011

Since mid-2011, PepsiCo’s Chairman and CEO, Indra Nooyi (Nooyi), had been facing some difficult questions. During the first five years of her tenure at the helm of the consumer packaged goods major, Nooyi had been credited with transforming PepsiCo by spearheading the company’s sustainable development journey with her ‘Performance with Purpose’ strategy. But since mid-2011, she had been facing criticism that this had come at the cost of marketing and positioning of PepsiCo’s products to boost sales.

Faced with environmental and social criticism, PepsiCo started an ambitious new sustainable development program called ‘Performance with Purpose’ in 2009. The five-year mission was based on the philosophy that the organization should not only keep focus on financial performance but also on its responsibilities. The new program listed 47 commitments that PepsiCo had toward society and these came under four broad areas: Performance, Human Sustainability, Environmental Sustainability, and Talent Sustainability. The first commitment was to its shareholders to give good returns for their investments while the others were to its other stakeholders. PepsiCo took several steps to fulfill its commitments. It increased the content of fruits, vegetables, nuts, grains, and low-fat dairy in its global product portfolio. It achieved a positive water balance in India where it had been involved in controversies regarding the use of groundwater for its operations. It introduced several affordable and nutritious products for the underprivileged sections of society and reduced the use of electricity and fuel for its operations. It also undertook several steps to increase the diversity of its workforce around the world. For the year 2011, PepsiCo was named the top food and beverage company in the DJSI Food and Beverage Super sector and was included in the Dow Jones Sustainability Indexes^{1, ii}. PepsiCo was the only company based in the US to earn the top ranking in the 19 super sectors assessed for the year 2011. This was the third consecutive year that the company had been named the leader in the beverage sector. The top ranking achieved by PepsiCo was the result of its focus on sustainable development practices around the world, according to some analysts.

However, with PepsiCo’s flagship cola brand Pepsi being relegated to the #3 position in the US market behind arch-rival The Coca Cola Company’s² (Coca Cola) Coke and Diet Coke, key

¹ Dow Jones Sustainability indexers are a group of indexes which evaluate the world’s leading companies in their sustainability practices.

² The Coca Cola Company, headquartered in Atlanta, Georgia, US, is a maker of non-alcoholic drinks. It is best known for its flagship product Coke. Its revenue and profit for the fiscal year 2010 were US\$ 35.12 billion and US\$ 11.81 billion respectively.

stakeholders such as shareholders and bottlers had begun to question Nooyi's focus. They contended that her philosophy had also led her to back 'Pepsi Refresh' and social-responsibility positioning of the same kind and that this had cost the company in terms of the sales of the products themselves. In addition to this, they felt that the company's revamped food product lines had produced mixed results. Moreover, despite all the measures taken under the new sustainable development program, PepsiCo still continued to face criticism from certain quarters regarding the social and environmental impact of its business practices.

COMPANY BACKGROUND

The origins of Pepsi date back to the late 19th century when a young pharmacist Caleb Bradham (Bradham) started selling a refreshing drink called 'Brad's Drink' in his pharmacy. The drink was later renamed Pepsi-Cola after the digestive enzyme pepsin³ used in the recipe. The sales of Pepsi soon started to increase. This convinced Bradham to form a company called the Pepsi-Cola Company. Bradham got an official patent for the drink in 1903 and then started to sell it in bottles. The business showed spectacular growth and Bradham sold 7,968 gallons of the drink in the year 1903. He later started to award franchises to grow his business and the Pepsi-Cola Company's franchisees spread to 24 states of the US. The strong franchise system developed by Bradham was one of the main reasons for Pepsi's initial success. The sales of Pepsi also reached 100,000 gallons by 1910. The outbreak of World War I, however, affected the company's business due to fluctuations in the price of sugar. It went bankrupt by the year 1923. Bradham sold the Pepsi-Cola trademark to Craven Holdings Corporation and resumed his pharmacy business. Pepsi Cola Company was declared bankrupt for a second time in the year 1931 as the Great Depression⁴ affected its sales.

Pepsi's fortunes changed when its assets were purchased by a successful candy manufacturer Charles G. Guth (Guth). Guth had been thinking of selling his own soft drink at his stores after Coca Cola declined to give him a discount on its drinks. He reformulated the Pepsi formula and started to sell it in 12-ounce bottles at a cheaper price than its competitors. Under Guth's leadership, Pepsi grew to be a national brand once again. The Pepsi-Cola Company started to expand into international markets like the Soviet Union, Latin America, and Canada. After the end of World War II, Pepsi-Cola Company's international headquarters were moved to Manhattan and it continued to expand further into international markets. In 1964, it introduced some other successful soft drinks to its product portfolio like 'Diet Pepsi' and 'Mountain Dew'.ⁱⁱⁱ

Pepsi-Cola Company and Frito-Lay, the world's largest maker of snack chips in the world, were merged in the year 1965 to form PepsiCo Inc. (PepsiCo). PepsiCo soon started to diversify into the restaurant business to generate faster growth for the company. It purchased Pizza Hut in 1977, Taco Bell in 1978, and Kentucky Fried Chicken in 1986. With

³ Pepsin is an enzyme released by the cells in the stomach. It degrades the food proteins into peptides.

⁴ The Great Depression was a worldwide economic depression that started in 1929 and lasted till the late 1930s.

these takeovers, PepsiCo emerged as the world leader in the restaurant business. PepsiCo's operations were split in 1986 with the beverage operations being combined under PepsiCo Worldwide Beverages and snack food operations under PepsiCo Worldwide Foods. In 1986, PepsiCo purchased 7-Up International, the third largest franchise soft drink outside the US.

By 1990, PepsiCo's revenues had reached US\$ 17.80 billion and it was ranked in the top 25 of the Fortune 500⁵ companies. Its revenues further increased to US\$ 30.42 billion by the year 1995 and it became the world's third largest employer. But, the company's performance had deteriorated by the year 1996, both in the domestic and international markets due to intense competition from Coca-Cola. For the year 1996, the beverages division of PepsiCo posted an operating profit of just US\$ 582 million. Many analysts felt that the main reason for PepsiCo's decline in performance was its diversification into the restaurant business. Many other restaurant chains were also not willing to offer PepsiCo's products in their outlets as it owned a restaurant business which directly competed with them. So PepsiCo decided to restructure its business and spin off its restaurant business as an independent publicly traded company called Tricon Global Restaurants, Inc. The spin-off was completed in October 1997. Tricon was later renamed Yum! Brands Inc. in the year 2002. PepsiCo decided to focus on its packaged foods business to effectively compete with Coca Cola. It also acquired Tropicana, the world's biggest producer of branded juices, in July 1998. Other steps taken by PepsiCo included hiving-off of its bottling operations into a separate new company called Pepsi Bottling Group (PBG). The restructuring efforts paid off and its operating profits rose from US\$ 2.58 billion for the year 1998 to US\$ 3.23 billion in 2000. In the year 2000, PepsiCo acquired Quaker Oats, a food conglomerate. The acquisition was aimed at offering healthier alternatives to its consumers. The new acquisition was aimed at capturing a new trend among the consumers who were abandoning carbonated drinks in favor of bottled waters, herbal teas, and juice drinks.

CONTROVERSIES SURROUNDING PEPSICO

Despite its spectacular turnaround, PepsiCo started facing criticism regarding the effect of its operations on the environment. In the early and mid-2000s, it faced controversies regarding the usage of water for its bottling operations which reportedly caused water shortages in some parts of India and the US. In India, PepsiCo faced controversies regarding its usage of water as water shortages were getting acute in the country due to the rapid increase in population. PepsiCo was accused of diverting water which could be used for drinking purposes for making its beverage products. Critics said PepsiCo's excessive reliance on groundwater for making its products had resulted in a shortage of drinking water in the areas in which it operated. Activists from 13 Indian states launched a campaign against companies such as PepsiCo for exploitation and pollution of groundwater. Commenting on the business practices of beverage companies, a prominent social activist said, "Coke and Pepsi are engaged in a water war against India. Their bottling plants are stealing millions of liters of water, denying local communities their fundamental right to water."^{iv}

⁵ Fortune 500 is the list of top 500 US companies published by the *Fortune* magazine.

In 2003, the village council of Pudukkottai, a village in the south Indian state of Tamil Nadu, revoked the water-use license of a bottling plant of PepsiCo, alleging that its operations in the area had resulted in water shortage in the village.^v But Pepsi denied that its operations had led to depleting water resources in the areas. However, it accepted that it depended on groundwater for its bottling operations.^{vi} PepsiCo along with Coca Cola faced the wrath of judiciary when the High Court of India's southern state Kerala criticized them and commented that, "(ground) water belongs to people, not to Coke and Pepsi...."^{vii} PepsiCo faced similar allegations over its usage of groundwater in some areas of the US where it had its bottling operations.

PepsiCo also faced criticism from activist groups regarding the effect of its products on the health of its consumers. In 2006, PepsiCo faced a huge controversy in India when the Center for Science and Environment (CSE), a public interest research and advocacy organization based in India, alleged that the level of pesticides in its soft drinks exceeded the safety standards prescribed by the regulatory bodies. PepsiCo refuted the allegations saying that the pesticide residuals found in its beverage products were within the limits prescribed by the concerned regulatory body. It said that it followed the same quality standards in India that it followed across the globe. Commenting on the controversy, Nooyi said, "For somebody to think that Pepsi would jeopardize its brand — its global brand — by doing something stupid in one country is crazy."^{viii}

PepsiCo questioned the CSE report and the data gathering techniques employed by the organization. The Government of India stood by PepsiCo. But Kerala temporarily banned the sales of beverage products made by PepsiCo.^{ix} Several other Indian states too banned the sale of PepsiCo's products in government-run schools and colleges.^x The High Court of Kerala later lifted the ban which, was subsequently upheld by India's Supreme Court subsequently.^{xi} The sales of PepsiCo's products came down drastically. Analysts said that more than the sales, it was the reputation of PepsiCo and the other beverage companies that had taken a beating due to the controversy.

Another controversy that PepsiCo was involved in was with regard to the contents of its snack and beverage products, which critics said, led to an increase in health problems like obesity and diabetes. Critics said that PepsiCo was not focusing on making healthy low calorie products but was expanding its product base in the high calorie segments. PepsiCo also faced the wrath of activist groups with regard to the effect its products were having on the health of children. Activist groups accused PepsiCo of marketing products with high calorie contents to children, leading to health risks at a younger age. Some research directed at junk food found that repetitive advertisements targeted at children could influence their purchasing decisions towards high calorie junk food.^{xii}

Some other controversies faced by PepsiCo were the impact that the contents used in manufacturing and packaging its products were having on the environment. Its beverage products were packed in plastic bottles and tin cans, which environmental activists alleged, could cause environmental pollution. Other companies in the beverages and snacks sector such as Coca-Cola also faced similar controversies. In 2003, Coca-Cola was accused of dumping the waste generated in its bottling plants as fertilizer on farmers. In a study

conducted by BBC's Radio 4, it was found that Coca Cola had supplied wastes from its bottling plant in Kerala to farmers as fertilizer. These contained dangerous toxic metals like cadmium and lead.^{xiii} When cadmium entered the human body, it slowly accumulated in the kidneys and caused kidney failure. Lead could cause mental retardation and anemia. The study was conducted by BBC on the basis of complaints received from local people about groundwater levels becoming depleted due to Coca Cola's operations in that area.

SUSTAINABLE DEVELOPMENT PRACTICES OF PEPSICO

PepsiCo has overtaken its archrival Coca Cola in 2005 and has grown to nearly twice the size of the latter. For the year 2010, Coca Cola's revenues stood at US\$ 35.12 billion while that of PepsiCo stood at US\$ 57.84 billion (Refer to Exhibit-I for the consolidated income statement of PepsiCo from 2006-2010). PepsiCo's tremendous growth was possible because of a shift in its focus from the beverages business and the mergers and acquisitions it has undertaken in the 1990s and later. After overtaking Coca Cola in terms of revenues, PepsiCo decided to focus on corporate sustainability to differentiate itself from Coca Cola. The growth in its business led to more controversies regarding its operations.

In the face of growing criticism, PepsiCo started to focus more on sustainable development practices worldwide. It started a new sustainable development program in 2009. The program was started with a five-year mission 'Performance with Purpose' under the leadership of Nooyi, who took charge as CEO in 2006 (Refer to Exhibit- II for the performance with purpose mission of PepsiCo). The India-born Nooyi was a graduate from Madras Christian College in Chemistry, Physics, and Mathematics, and a Management graduate from the Indian Institute of Management, Calcutta. She also had a Master's in Public and Private Management from Yale. After stints with companies such as ABB⁶, Johnson and Johnson⁷, and Management consulting firm Boston Consulting Group, she joined PepsiCo as chief strategist in 1994. She served as the Senior Vice-President of Strategic Planning and Development and Chief Financial Officer of PepsiCo before becoming CEO.

The 'Performance with Purpose' mission was based upon the belief that the financial performance of the organization must go hand-in-hand with its responsibilities toward society and the environment. The declaration by PepsiCo called the 'The Promise of PepsiCo' had 47 commitments which would guide the organization for the following decade.^{xiv} (Refer to Exhibit - III for PepsiCo's Goals and Commitments) The 'Performance with Purpose' mission constituted both promises made to its shareholders for providing good financial returns and promises to society and the environment.^{xv} In its promise to shareholders viz. 'Performance', PepsiCo vowed to deliver superior and sustainable financial performance to maximize their wealth. PepsiCo's responsibilities toward society and the environment were

⁶ ABB is a multinational headquartered in Zurich, with operations in power and automation technology.

⁷ Johnson and Johnson is a global American pharmaceutical, medical devices, and consumer packaged goods manufacturer.

broadly categorized into three areas viz. Human Sustainability, Environmental Sustainability, and Talent Sustainability. Human sustainability referred to the efforts made by PepsiCo to meet the different nutritional needs of the people. Environmental sustainability focused on protecting the environment and reducing PepsiCo's reliance on natural resources and conserving them for future generations. It also focused on mitigating the impact of its operations on the environment. Talent sustainability focused on developing its employees by developing the skills required to meet its growth needs and for making PepsiCo an attractive target for the world's best brains.

Commenting on PepsiCo's initiatives in sustainable development, Nooyi said, "The talents and skills of our global workforce, coupled with our operational capabilities, provide PepsiCo with a unique opportunity to have a positive impact on society. The goal of our sustainable development journey is to operate as a force for bringing greater good to the world."^{xvi}

The new sustainable development program initiated at PepsiCo was part of an overall realization among many business organizations regarding the strategies to deal with a future where resources were limited. Commenting on the realization among business organizations, Jonathan Kaplan, senior policy specialist at Natural Resources Defense Council⁸, said, "Food manufacturers, in general, are closer to recognizing that we're headed toward a future with finite resources, where water, grain, and other inputs are less available and more expensive. Companies that figure out how to become part of the solution will have an advantage."^{xvii}

PERFORMANCE

As per the Performance promise to its shareholders, PepsiCo made a lot of commitments regarding the performance of PepsiCo. The Performance promise included growing its international revenues at a rate which was double the global GDP growth rate. PepsiCo promised to achieve this through a series of measures. It promised to increase its market share of the beverage and snack products in the top 20 markets. It also promised to improve the brand equity scores for PepsiCo's brands in the top 10 markets. Other measures included expanding the division operating margins, increasing cash flow in proportion to the growth in the net income growth, delivering the best possible returns in the industry to its shareholders, and following high standards of corporate governance.

HUMAN SUSTAINABILITY

PepsiCo's human sustainability initiatives focused on helping people live healthy lives by offering them a healthy portfolio of products which were also enjoyable. As per the commitments given by the company with regard to its products, PepsiCo promised to increase the content of fruits, vegetables, nuts, grains, and low-fat dairy in its global product portfolio. It also promised to reduce the amount of sodium, saturated fat, and added sugar in

⁸ Natural Resources Defense Council, headquartered in New York, USA, is an international environmental advocacy group.

its products by 25, 15, and 25 percent respectively. As per its commitments regarding its marketing practices under human sustainability, PepsiCo also promised to display calorie count and key nutrients on its product labels, restrict selling some of its products to children under the age of 12, and eliminate the sale of products which were primarily made of sugar in all schools around the globe by 2012. PepsiCo said it would invest more in businesses and research and development activities to produce more nutritious products which were affordable for the low-income communities around the globe. PepsiCo also proposed to promote healthier communities by enhancing the diet and physical activity programs.^{xviii}

ENVIRONMENTAL SUSTAINABILITY

Under its environmental sustainability initiatives, PepsiCo promised to be a good citizen of the world committed to protecting the natural resources by proper use of land, energy, and packaging in its operations. PepsiCo committed itself to increasing its water use efficiency by 20 percent by 2015. In view of the protests that PepsiCo was facing in countries like India regarding its water use practices, it promised to strive for a positive water balance in its operations in areas where water was scarce. PepsiCo promised to provide access to safe water to 3 million people living in developing countries by 2015.^{xix} It also promised to use more recycled material in its packaging operations which would reduce environmental damage. PepsiCo committed itself to countering climate change by improving electricity use efficiency by 20 percent by 2015, reducing the fuel used by 25 percent by 2015, reducing the greenhouse gas (GHG) emissions from its operations, and applying agricultural practices which had been proven sustainable, in its farmed land. .

TALENT SUSTAINABILITY

PepsiCo's talent sustainability initiatives were focused on one of its most important stakeholder communities – its employees. PepsiCo promised to invest in the development of its associates to improve the skills necessary to drive the company's growth as well as improving employment opportunities in the communities it served. PepsiCo aimed at increasing diversity in its workforce by recruiting people from diverse ethnic backgrounds. It said that it would be able to properly understand the needs and demands of the local people by giving better representation to the people where it had operations. It also planned to improve the engagement with its employees when compared with other big Fortune 500 companies.^{xx} PepsiCo committed itself to supporting education programs in poor countries through charitable contributions globally. Focusing on the welfare of its employees, PepsiCo committed itself to improving workplace safety by decreasing lost-time injury rates⁹ and increasing health and safety metrics.

⁹ Lost-time injury rates refer to an occurrence which results in fatality, permanent disability, or time lost from work due to injury or disablement.

PEPSICO'S PROGRESS IN SUSTAINABLE DEVELOPMENT

PepsiCo made good progress on its promises regarding sustainable development, according to some analysts. At PepsiCo, the 'Performance with Purpose' agenda came from top down. Nooyi became a prominent advocate of its sustainable development practices. She believed in the organization's responsibility toward society and in giving back. This belief in conscious capitalism made her a leader in implementing the sustainable development programs at PepsiCo. Another person who was prominent in the implementation of the new sustainable development program was David Walker (Walker). Walker was a twenty-five year veteran of PepsiCo and was serving as the director of environmental sustainability. He managed several programs at PepsiCo and was responsible for PepsiCo's programs on responsibility toward the environment.

Sticking to its commitment, PepsiCo made rapid progress in its financial performance. In 2009, when the world economy was still recovering from the great economic recession of 2008, PepsiCo increased its global revenues at a Compounded Annual Growth Rate (CAGR) of 13.6 percent for the three preceding years. This was well ahead of its target of growing at double the global GDP growth. In 2010, PepsiCo's revenues outside the US grew at a rate of 30 percent, which constituted 45 percent of its total revenues. Its businesses in India and Brazil grew at 2.5 and 3.5 times of their real GDP growth rates.^{xxi} PepsiCo increased its market share in its top 20 markets by introducing new products like 'Pepsi Max' — a zero-calorie beverage — and extending its portfolio into sub-segments. PepsiCo also focused on increasing its brand equity for its brands in the top 10 markets through some consumer engagement programs which were very successful. Some of these programs allowed the consumers to give their opinions on the new flavors introduced by the brands.

PepsiCo acquired some of its bottlers in North America and Europe which helped it to reduce its overall division operating margins in 2010. Its cash flow for the three years ended 2010 increased more than its growth of net income and it increased its annual dividend in 2010 by 7 percent from US\$ 1.80 to US\$ 1.92. This was the 38th consecutive year for which PepsiCo increased its revenues.

PepsiCo made great strides in increasing the content of fruits, vegetables, nuts, grains, and low-fat dairy in its global product portfolio (Refer to Table I for food portfolio of PepsiCo). Its Quaker division's contribution of whole grains to the American diet was 500 million pounds for the year 2010. As part of its human sustainability initiatives, PepsiCo formed the Global Nutrition Group to increase the 'Good for You' foods and Beverages in its product portfolio. PepsiCo's 'Good for You' product portfolio delivered revenue of US\$10 billion for the year 2010 and it had plans to increase it to US\$ 30 billion by 2020. In December 2010, PepsiCo acquired 66 percent of Wimm-Bill-Dann Foods, Russia's leading branded food-and-beverage company, for US\$3.8 billion to bolster its nutrition portfolio. This increased the company's annual global revenues from nutritious and functional foods from approximately US\$10 billion to nearly US\$13 billion.^{xxii} PepsiCo continued its efforts to reduce the amount of sodium, saturated fat, and added sugar in its products as per the targets that it had set. It continued to invest in developing different salt crystal shapes which would help deliver good

taste using less sodium. Though it was tough to develop products which had less sugar, PepsiCo entered into partnerships with other organizations for developing an all-natural sweetener which would eventually replace sugar.

Table I:

Food Portfolio of PepsiCo Inc.

Fun for You	These products are a part of PepsiCo's core food and beverages business. They include Pepsi Cola, Mirinda, Doritos, Lays, Cheetos, Mountain Dew, 7Up, and Red Rock Deli Potato Chips.
Better for You	These products are foods and beverages that have levels of total fat, saturated fat, sodium, and sugar that are in line with global dietary intake recommendations. They include Lay's Baked Potato Crisps, Pepsi Max, Diet Mug Root Beer, Diet Sierra Mist, H ₂ OH, Diet Pepsi, and Propel Zero water.
Good for You	These products offer positive nutrition through inclusion of whole grain fruits, vegetables, low-fat dairy, nuts and seeds or significant amounts of important nutrients, while moderating total fat, saturated fat, sodium, and added sugar. They also address the performance needs of athletes. They include Quaker Instant Oatmeal, G series, Tropicana, Nut Harvest, and Naked juice.

** Data as of 2011.*

Source: www.PEP.com/Download/PEP_Annual_Report_2010_Full_Annual_Report.pdf

PepsiCo implemented front-of-pack labeling for its products in many countries which displayed calorie and basic nutritional information. The company developed strict science-based criteria which would ensure that only its most nutritious products met the standards for advertising to children under 12. PepsiCo achieved 100 percent compliance for advertising standards to children in the US and 98.5 percent compliance for the same in countries such as India, China, Mexico, and some other countries of the European Union. To keep its promise of providing low cost nutritious food to the underprivileged sections of society, PepsiCo launched several initiatives. In India, it launched affordable snacks and biscuits to tackle iron-deficiency anemia. PepsiCo decided to expand PepsiCo Foundation¹⁰ to increase contributions and help people with high disparities in health achieve improved

¹⁰ PepsiCo Foundation was the philanthropic arm of PepsiCo. It was responsible for providing charitable contributions to eligible nonprofit organizations.

health and nutrition through sustainable programs. PepsiCo increased its contribution from US\$4.2 million in 2006 to US\$4.7 million in 2010 to achieve improved health and nutrition by launching effective and sustainable programs.

The PepsiCo Foundation also developed partnerships with non-governmental and charitable organizations like 'Save the Children'¹¹ and 'World Food Program'¹² to increase its contributions toward promoting healthier societies. In the year 2010, it created a new arm to facilitate innovation in the area of nutrition and increase its nutrition businesses called 'Global Nutrition Group'.^{xxiii} It would have its own CEO and would be responsible for delivering breakthrough innovation in the areas of fruits and vegetables, grains, dairy, and functional nutrition. PepsiCo's Chief Scientific Officer Mehmood Khan, who was a key person in its implementation of sustainable development program, was named CEO of the new group. Commenting on the creation of the new 'Global Nutrition Group', Nooyi said, "The creation of this Global Nutrition Group is part of our long-term strategy to grow our nutrition businesses from about US\$10 billion in revenues today to US\$30 billion by 2020."^{xxiv}

On the environmental front, in view of the criticism it faced in water use, PepsiCo reduced the water-use intensity by 19.5 percent by the third quarter of 2010 and nearly achieved its target of improving its water-use efficiency by 20 percent per unit of production by 2015. It achieved a positive water balance in its Indian operations by 2009. PepsiCo also started to have watersheds in China, Mexico, Europe, India, and the US to replenish the water used for its operations. The PepsiCo Foundation had invested US\$15 million for water projects since 2005 and expected to provide safe drinking water to one million people by the end of 2011 and to three million people by 2015.^{xxv} PepsiCo launched a new initiative called the Dream Machine recycling initiative to increase the beverage container recycling rate from 38 percent in 2009 to 50 percent by 2018. It planned to enter into partnerships with organizations to establish recycling systems and encourage consumers to recycle. In March 2011, PepsiCo introduced a new beverage bottle which was fully recyclable and made of plant-based materials.^{xxvi} With an eye on warding off further controversies, the company made sure that the new material used to make beverage bottles did not compete with food crops to ward off further controversies.

PepsiCo increased its electricity-use efficiency by 9 percent and fuel-use efficiency by 12 percent by the third quarter of 2010 compared to the 2006 baseline. To reduce the GHG emissions from its operations, it invested in electric-powered delivery trucks which emitted 75 percent less greenhouse gases. PepsiCo launched the 'Global Sustainable Agriculture Policy' in the year 2009 to encourage everybody to protect and nourish land and communities. PepsiCo launched an important initiative in 2010 with some British farmers to reduce carbon emissions and water use by 50 percent over five years. It developed a new

¹¹ Save the Children founded in London, UK, is a non-governmental organization that enforces children's rights and provides relief and support to children in developing countries.

¹² The World Food Program, headquartered in Rome, Italy, is a branch of the United Nations and provides food aid around the world.

precision farming technology in partnership with Cambridge University¹³ called 'i-crop' to produce more output utilizing less water. In India, PepsiCo started teaching sustainable agricultural practices to farmers and helped farmers to form themselves into cooperatives. To promote environmental education, PepsiCo's 'Green Volunteer Organization' inspired associates around the world to voluntarily raise awareness regarding eco-friendly practices both at work and at home.

In 2011, PepsiCo announced that it was planning to launch global ethical-farming standards to promote sustainable agriculture. The initiative was aimed at putting an economic value on the impact that its supply chains were having on the environment and society.^{xxvii} The initiative would focus on resource management, farm productivity, preservation of soil fertility, and social impacts like effects on farming communities, human rights, and compliance with local laws where it was operating. Dan Bena, PepsiCo's director of sustainable development, said apart from helping PepsiCo in improving its supply chain management, the new initiative aimed at helping other businesses to measure and monitor the impact their supply chains were having on the environment. In 2011, PepsiCo signed a memorandum of understanding with China's Ministry of Agriculture to promote sustainable farming. The new partnership with the government of China was part of PepsiCo's focus on investing in sustainable agriculture projects.^{xxviii}

To improve diversity and inclusion (D&I) in the organization, PepsiCo took steps to include D&I as a part of its culture. It took care that its D&I activities were supported at every level of the organization. In 2009, 80 percent of its employees responded in a survey that their managers supported their involvement in D&I activities which was a 14 percent increase from 2004. PepsiCo implemented its D&I strategy top-down with 33 percent of its board of directors being women and 33 percent being people of color in the year 2010 (Refer to Exhibit- IV for diversity and inclusion statistics of PepsiCo for the year 2010).^{xxix} To encourage its employees to lead healthier lifestyles, PepsiCo offered on-site health and wellness services in many countries around the world such as China, India, Mexico, South Africa, the UK, and the US. It gave paramount importance to the health and safety of its workers. It created a new 'Global Operations Organization' in 2011 to increase the health and safety in its global operations to leverage the best safety practices across all its sectors. In the year 2020, the PepsiCo Foundation contributed a total of US\$ 7.6 million as grants to promote education. The Foundation also provided educational scholarships to the children of PepsiCo's associates.

To increase the transparency, PepsiCo commissioned Bureau Veritas¹⁴ to provide independent verification of the data it provided to its various stakeholders and in its corporate sustainability report.

¹³ Cambridge University is a public research university located in Cambridge, UK. It was established in 13th century and is one of the top rated universities in the world.

¹⁴ Bureau Veritas, headquartered in Paris, France was an organization which provided conformity assessment, certification and consulting services to industry, government, and individuals.

LOOKING AHEAD

PepsiCo's focus and the progress it had made on sustainable development had yielded good results, according to analysts. Despite its shift of focus from beverage business to other businesses, more than 50 percent of its revenues for the year 2010 came from its beverage business both in the US and outside the US (Refer to Exhibit- V for PepsiCo's Revenue Mix). More than 70 percent of its revenues came from the Americas signifying the importance of home market for PepsiCo despite its global expansion. However, in recognition of the progress it had made on sustainable development, PepsiCo was named the top food and beverage company in the DJSI Food and Beverage Super sector and included in the Dow Jones Sustainability Indexes for the year 2011.^{xxx} It was the only company based in the US to earn the top ranking in the 19 super sectors assessed. This was the third consecutive year that PepsiCo had been named leader in the beverage sector. However, PepsiCo's successes on sustainable development did not steer it completely away from controversy. Some environmental activist groups continued to criticize its practices. Activist groups remained critical of the trash generated from the plastic bottles and tin cans used to pack PepsiCo's beverage products.

While Nooyi was praised for her leadership and 'Performance with a Purpose' strategy, she also came in for some strong criticism. Critics dismissed her 'Performance with Purpose' strategy as a marketing ploy that happened to be in vogue. They pointed out that the company was still best known for making soda and potato chips.^{xxxi} Nooyi was also vehemently criticized for her infamous comment in a Fox Business show: "Doritos is not bad for you ... Doritos is nothing but corn mashed up, fried a little bit with just very little oil, and then flavored in the most delectable way."^{xxxii} Her strategy was also criticized as there were reports that developing markets were not seeing a change in dietary habits. For instance, PepsiCo was banking on a successful launch of Pepsi Max in the summer of 2010 to extend its market share in India. However, the launch was not successful. Experts believed that many people in the developing world were not buying into the healthy food habits concept being propagated by PepsiCo. Sales of 100% juices continued to lag behind sugary ones by a wide margin while pizza chains like Dominos continued to beat sales targets.^{xxxiii} Moreover, some of PepsiCo's new forays were not doing too well: its Flat Earth chips¹⁵ had disappointed at the market and had to be discontinued because of slow sales.^{xxxiv} Critics accused the products of having a taste-barrier and even went to the extent of saying that some of them had a really awful taste.^{xxxv} Meanwhile, Quaker Oats had had little success in attracting attention to oatmeal, which was tagged as a 'Best for You' food by PepsiCo.

The company was criticized for diverting funds from expensive Super Bowl¹⁶ commercials to the 'Pepsi Refresh' challenge.¹⁷ Critics pointed out that PepsiCo had returned to TV advertising in June 2011 after three years of focus on social media and crowd sourcing

¹⁵ Flat Earth Chips were snacks that had half a serving of fruits or vegetables per ounce.

¹⁶ Super Bowl is the annual championship for the National Football League in the US. It is one of the most highly watched sporting events in the US. Due to high viewership, the commercial airtime during its broadcast is the most expensive of the year and companies develop their most expensive advertisements for this broadcast.

¹⁷ The Pepsi Refresh Challenge aimed at finding innovative not-for-profit organizations.

through corporate philanthropy based on programs like Pepsi Refresh. Critics said that Coca Cola had emerged stronger during Nooyi's tenure as the CEO at PepsiCo, with increasing sales and a much lower costs structure. According to a report in 2011, Coke had held on to the #1 slot in sales and unseated Pepsi from the #2 spot as well with Diet Coke in the US (Refer to Exhibit- VI for the top 10 carbonated beverage brands in the US). Globally, while PepsiCo was being affected by increased commodity costs and the uncertain economic conditions and had to cut its earnings growth to single digit levels in 2011, Coca Cola had reported increasing sales volumes. Nooyi was accused of ignoring marketing and positioning of products while placing too much of an emphasis on 'Performance with Purpose'. A shareholder had earlier remarked, "I think it is hard to give Indra much better than a C-plus as a CEO', given the fact that PEP shares had fallen by 7% by 2009, compared to a 28% surge for Coke during the same period, from the time she took over."^{xxxvi} (Refer to Exhibit- VII for the chart of PepsiCo's share price from 2006 to 2011 (October))

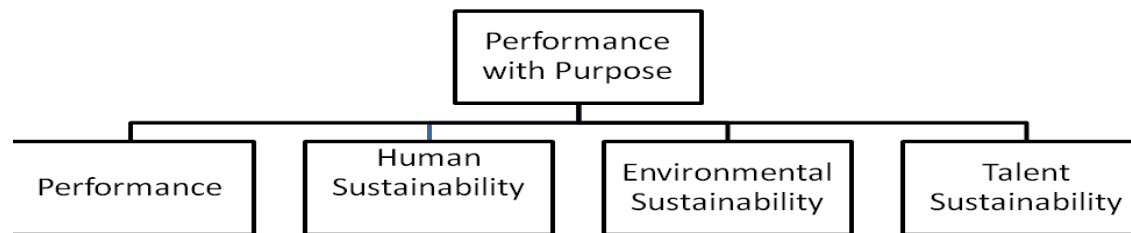
Nooyi rubbished criticism that she had not paid attention to PepsiCo's leading brands and argued that emphasis on corporate citizenship and healthy foods did not come at the cost of driving sales.^{xxxvii} However, there was considerable pressure on Nooyi from shareholders to improve the market share of PepsiCo's flagship brands and her every move was being closely watched.^{xxxviii}

Exhibit I: Consolidated Income Statement of PepsiCo from 2006-2010 (In US\$ Millions)

	2010	2009	2008	2007	2006
Net Revenue	57,838	43,232	43,251	35,137	39,474
Cost of sales	26,575	20,099	20,351	18,038	15,762
Selling, general and administrative expenses	22,814	15,026	15,877	14,208	12,774
Amortization of intangible assets	117	63	64	58	162
Operating Profit	8,332	8,044	6,959	7,170	6,439
Bottling equity income	735	365	374	560	616
Interest expense	(903)	(397)	(329)	(224)	(239)
Interest income	68	67	41	125	173
Income before income taxes	8,232	8,079	7,045	7,631	6,989
Income taxes	1,894	2,100	1,879	1,973	1,347
Net income	6,320	5,946	5,142	5,658	5,642

Source: "PepsiCo: 2010 Annual Report," www.pepsico.com.

Exhibit II: Performance with Purpose



Human Sustainability	Ensuring that products ranging from treats to health foods allow customers to make balanced, sensible choices.
Environmental Sustainability	Ensuring that the company replenishes the planet and leaves the world a much better place than it was before.
Talent Sustainability	Ensuring that the employees of PepsiCo also have a life while they earn their living with the company.

Source: "PepsiCo: 2010 Annual Report," www.pepsico.com; www.leadership.bcg.com/americas/nooyi.aspx

Exhibit III: Goals and Commitments of PepsiCo

Performance	
Top Line	<ul style="list-style-type: none"> Grow international revenues at two times real global GDP growth rate. Grow savory snack and liquid refreshment beverage market share in the top 20 markets. Sustain or improve brand equity scores for PepsiCo's US\$ 19 billion brands in top 10 markets. Rank among the top two suppliers in customer (retail partner) surveys where third-party measures exist.
Bottom Line	<ul style="list-style-type: none"> Continue to expand division operating margins. Increase cash flow in proportion to net income growth over three-year. Deliver total shareholder returns in the top quartile of our industry group.
Corporate Governance	<ul style="list-style-type: none"> Utilize a robust corporate Governance structure to consistently score in the top quartile of corporate Governance metrics. Ensure our PepsiCo value commitment to deliver sustained growth through empowered people acting with responsibility and building trust.
Human Sustainability	
Products	<p>Provide more food and beverage choices made with wholesome ingredients that contribute to healthier eating and drinking.</p> <ul style="list-style-type: none"> Increase the amount of whole grains, fruits, vegetables, nuts, seeds and low-fat dairy in our global product portfolio. Reduce the average amount of sodium per serving in key global food brands by 25 percent. Reduce the average amount of saturated fat per serving in key global food brands by 15 percent. Reduce the average amount of added sugar per serving in key global beverage brands by 25 percent.
Market Place	<p>Encourage people to make informed choices and live healthier.</p> <ul style="list-style-type: none"> Display calorie count and key nutrients on our food and beverage packaging by 2012. Advertise to children under 12 only products that meet our global science-based nutrition standards. Eliminate the direct sale of full-sugar soft drinks in primary and

	<p>secondary schools around the globe by 2012.</p> <ul style="list-style-type: none"> • Increase the range of foods and beverages that offer solutions for managing calories, like portion sizes.
Community	<p>Actively work with global and local partners to help address global nutrition challenges.</p> <ul style="list-style-type: none"> • Invest in our business and research and development to expand our offerings of more affordable, nutritionally relevant products for underserved and lower-income communities. • Expand PepsiCo Foundation and PepsiCo corporate contribution initiatives to promote healthier communities, including enhancing diet and physical activity programs. • Integrate our policies and actions on human health, agriculture and the environment to make sure that they support each other.
Environmental Sustainability	
Water	<p>Respect the human right to water through world-class efficiency in our operations, preserving water resources and enabling access to safe water.</p> <ul style="list-style-type: none"> • Improve our water use efficiency by 20 percent per unit of production by 2015. • Strive for positive water balance in our operations in water-distressed areas. • Provide access to safe water to three million people in developing countries by the end of 2015.
Land and Packaging	<p>Rethink the way we grow, source, create, package and deliver our products to minimize our impact on land.</p> <ul style="list-style-type: none"> • Continue to lead the industry by incorporating at least 10 percent recycled polyethylene terephthalate (rPET) in our primary soft drink containers in the US., and broadly expand the use of rPET across key international markets. • Create partnerships that promote the increase of US beverage container recycling rates to 50 percent by 2018. • Reduce packaging weight by 350 million pounds—avoiding the creation of one billion pounds of landfill waste by 2012. • Work to eliminate all solid waste to landfills from our production facilities.

Climate Change	<p>Reduce the carbon footprint of our operations.</p> <ul style="list-style-type: none"> • Improve our electricity use efficiency by 20 percent per unit of production by 2015. • Reduce our fuel use intensity by 25 percent per unit of production by 2015. • Commit to a goal of reducing greenhouse gas (ghg) intensity for US operations by 25 percent through our partnership with the US Environmental Protection agency climate leaders program. • Commit to an absolute reduction in ghg emissions across global operations.
Community	<p>Respect and responsibly use natural resources in our businesses and in the local communities we serve.</p> <ul style="list-style-type: none"> • Apply proven sustainable agricultural practices on our farmed land. • Provide funding, technical support and training to local farmers. • Promote environmental education and best practices among our associates and business partners. • Integrate our policies and actions on human health, agriculture and the environment to make sure that they support each other.
Talent Sustainability	
Culture	<p>Enable our people to thrive by providing a supportive and empowering workplace.</p> <ul style="list-style-type: none"> • Ensure high levels of associate engagement and satisfaction as compared with other Fortune 500 companies. • Foster diversity and inclusion by developing a workforce that reflects local communities. • Encourage our associates to lead healthier lives by offering workplace wellness programs globally. • Ensure a safe workplace by continuing to reduce lost time injury rates, while striving to improve other occupational health and safety metrics through best practices. • Support ethical and legal compliance through annual training in our code of conduct, which outlines PepsiCo's unwavering commitment to its human rights policy, including treating every associate with dignity and respect.
Career	<p>Provide opportunities that strengthen our associates' skills and capabilities to drive sustainable growth.</p>

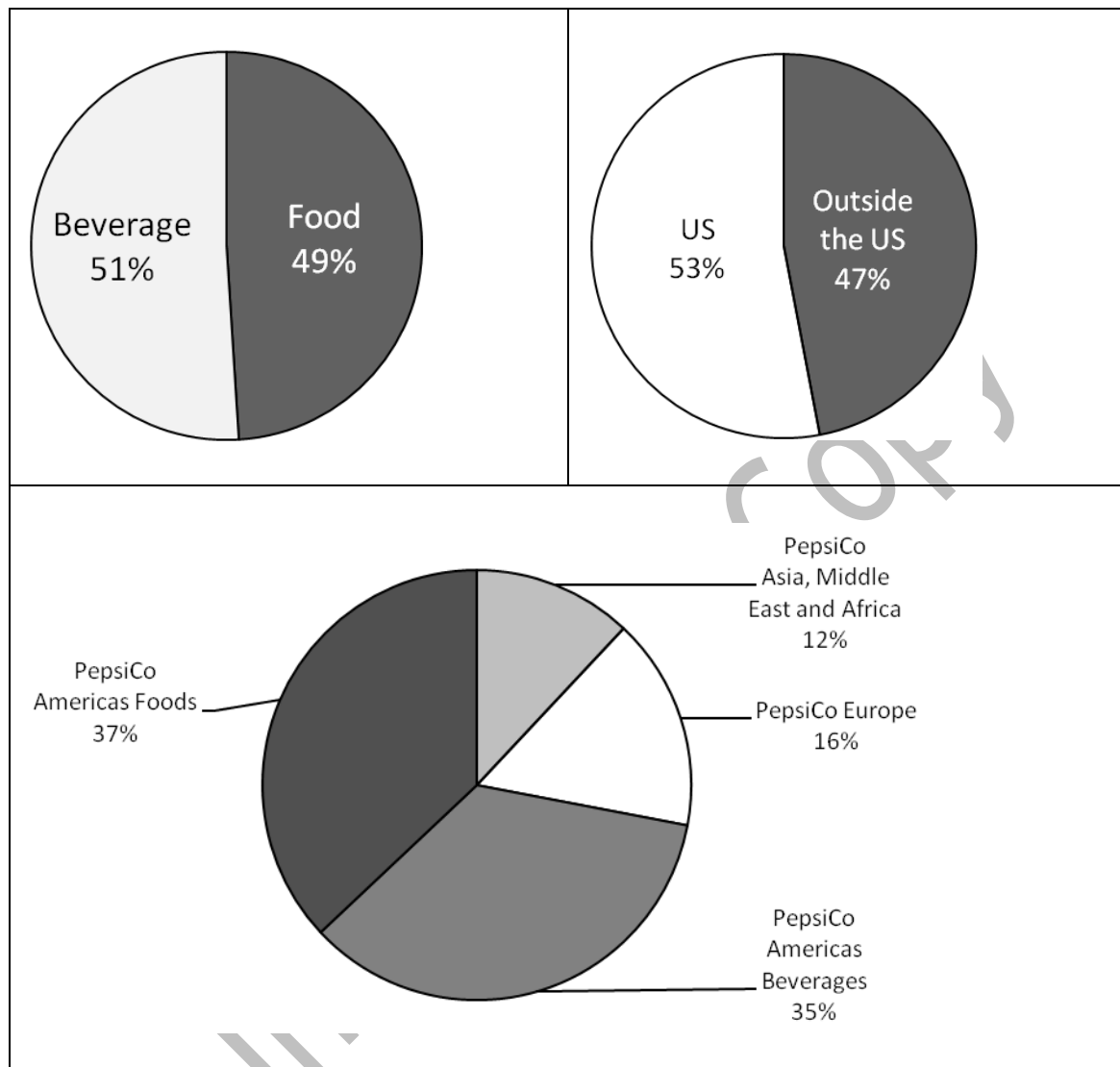
	<ul style="list-style-type: none"> • Become universally recognized through top rankings as one of the best companies in the world for leadership development. • Create a work environment in which associates know that their skills, talents and interests can fully develop. • Conduct training for associates from the frontline to senior management, to ensure that associates have the knowledge and skills required to achieve performance goals.
Community	<p>Contribute to better living standards in the communities we serve.</p> <ul style="list-style-type: none"> • Create local jobs by expanding operations in developing countries. • Support education through PepsiCo Foundation grants. • Support associate volunteerism and community involvement through company-sponsored programs and initiatives. • Match eligible associate charitable contributions globally, dollar for dollar, through the PepsiCo Foundation.

Source: "PepsiCo Corporate Citizenship Report 2009," www.pepsico.com.

Exhibit IV:**2010 Inclusion Statistics at PepsiCo**

	Total	Women	Percentage of Women	People of Color	Percentage of People of Color
Board of Directors	12	4	33	4	33
Senior Executives	13	2	15	3	23
Executives	2,970	915	31	600	20
All Managers	17,790	5,690	32	4,690	26
All Associates	100,415	19,530	19	29,360	29

Source: "PepsiCo: 2010 Annual Report," www.pepsico.com.

Exhibit V: PepsiCo's Mix of Net Revenue

Source: "PepsiCo: 2010 Annual Report," www.pepsico.com.

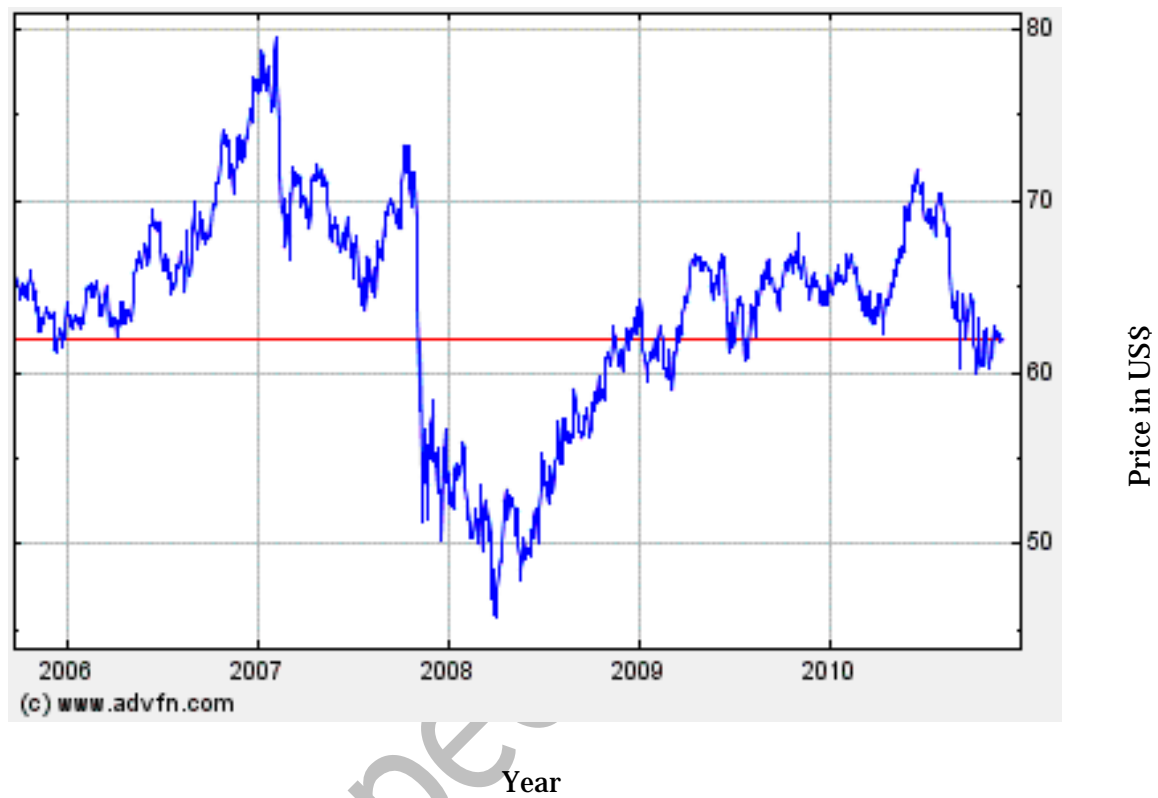
Exhibit VI: Top 10 Carbonated Beverage Brands in the US

Brand	Year of Introduction	Owned by the Company
Coca Cola	1886	Coca Cola
Diet Coke	1983	Coca Cola
Pepsi Cola	1898	PepsiCo
Mountain Dew	1948	PepsiCo
Dr Pepper	1885	Dr Pepper Snapple Group
Sprite	1961	Coca Cola
Diet Pepsi	1964	PepsiCo
Diet Mountain Dew	1988	PepsiCo
Diet Dr Pepper	1963	Dr Pepper Snapple Group
Fanta	1941	Coca Cola

Source: Peter Hartlaub, "Sweet! America's Top 10 Brands of Soda," <http://www.msnbc.msn.com>.

Exhibit VII:

Chart of PepsiCo's Share Price (2006-2011)



Source: <http://in.advfn.com/p.php?pid=qkchart&symbol=NY^PEP>.

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