

Analysis of PepsiCo Company

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Executive summary

PepsiCo is a food and beverages company that is a global brand dealing in a variety of products within the industry. The company has been in operation for more than 100 years grossing an average of \$ 10 billion annually. To achieve such amounts is a testament to the level of success achieved by very few companies on a global scale. Such resilience and success are confirmed by both the financial and non-financial factors related to PepsiCo. The non-financial factors include the company having a relatively good relationship with its employees who have a strong bond with the company. Additionally, there is also a strong brand that the company has that has been able to resonate well with global citizens.

This is evidenced by the level of sales that the company has achieved over the years. Some of the financial factors that the company enjoys are evidenced by the financial ratios calculated. Key among this is the ratio that indicates the company's share price having increased over the 2015-2017 period. Other issues such as debt may be looking to negate the company's achievement but a closer analysis informs that the debt is put to good use by the company and therefore does not pose a threat to the company's existence. Opportunities for PepsiCo are unlimited.

This is a result of growth in the world's population which in turn translates to a ready market for the company. Further, there is growth in the products that they offer which is an indication that their innovation will keep their customers satisfied with new products on offer which in turn results in the prolonged existence of the firm. One of the innovations that the company proposes is the launch of a home and office delivery service that will be complemented through the use of an app. Benefits from the service will include cost savings on both PepsiCo's side and customers' side which will translate to a cheaper product. Additionally, the customer will get PepsiCo's products delivered hassle-free right at their doorstep.

Approach

In order to carry out a concrete analysis of PepsiCo, various financial and non-financial indicators are used. The financial aspect covers a wide range of financial ratios that can give an investor a snapshot of how the organization is performing. Some of the ratios used include the sales growth analysis, profitability ratio, financial leverage ratio, efficiency ratio, return on equity and share valuation ratios. On the other hand, the non-financial aspect includes issues such as length of time in service, history of the company, response from the market, product availability and variety and the market covered by the company.

Both financial and non-financial information is collected from a wide range of credible sources that include PepsiCo's financial records and statements, scholarly materials related to PepsiCo's performance, sentiments from consumers available on a variety of blogs and credible newspaper articles. To ensure that the material is relevant for decision-making, recent information is used. For instance, the financial analysis covers the 2015-2017 period.

While an approach to analysing a company may be termed as being too subjective in cases of non-financial factors, a wide range of feedback is considered before taking into consideration sentiments such as employees praising the firm. A large enough sample ought to have praised the company for it to be said that employees appreciate working for the firm. Additionally, issues dealing with financial ratios have been criticized on end. Regardless, ratios continue to be used in the business world to analyze businesses for lack of a better measure as yet. With all this put into consideration, the analysis of PepsiCo is conducted carefully to avoid biasness that may otherwise skew the analysis.

Financial Performance

PepsiCo is a US company that is one of the leading global foods and beverages companies that has operated from 1893 and grosses an average of over \$ 10 billion annually on sales. The beverages market that PepsiCo operates in has proven to be highly competitive, therefore, for PepsiCo to survive the market, they have to have very strong financials that can support their operations. Being a global brand, PepsiCo has divided its operations into six divisions; North America Beverages (NAB), Frito-Lay North America (FLNA), Quaker Foods North America, Latin America (LA), Europe Sub-Saharan Africa (ESSA) and Asia, Middle East & North Africa (AMENA). Such a division helps PepsiCo to be able to run efficiently and be able to have superior performance. Further, the division involves having different products operating under different market segments such as Pepsi, Lays, Gatorades performance, Quaker, and Tropicana.

To assess PepsiCo's liquidity, a current and quick ratio is used. The liquidity ratios are used to indicate whether a company is able to meet its maturing financial obligation. The current ratio compares the total current assets to total current liabilities while the quick ratio does the same but eliminates inventory due to its illiquid nature from the calculation to arrive at the total current assets value. From the figures below, it can be ascertained that both PepsiCo's current and quick ratios have increased over the period. The recommended rate for the current ratio is 2 while for the quick ratio is 1. This is an indication that PepsiCo is able to meet its financial obligations.

Figure 1. Current and quick ratio

Efficiency ratios are important in ascertaining whether and organization's assets are utilized efficiently in the generation of sales. To ascertain PepsiCo's efficiency, an inventory turnover ratio, days' sales outstanding ratio, fixed assets turnover, and total assets turnover are calculated. The

inventory turnover is an indicator of how many times the company turns inventory into sales. A high inventory turnover figure is desirable. The days' sales outstanding ratio (DSO) is an indicator of how soon a company collects its receivables. A low enough figure is always desired. Fixed and total assets turnover is a measure of how efficiently the assets are used in the generation of sales. Consequently, from an analysis of the efficiency ratios, PepsiCo can be said to have improved in their sales due to a rise in inventory turnover. The company's day sales outstanding figure is growing and this is not a good indicator as it means that PepsiCo is delaying in collecting amounts owed. Additionally, both the fixed and total assets turnover have reduced slightly over the period which is not a good indicator as they need to be increasing to show increased efficiency. A good pointer for investors would be to compare the figure with the industry average so as to ascertain whether PepsiCo would be performing well or they are getting worse off than the industry average too. A summary of the efficiency ratios is presented in table 1 below.

Table 1

PepsiCo efficiency ratios

Year	Inventory turnover	DSO	Fixed Assets turnover	Total assets turnover
2015	9.80	36.99	1.36	0.91
2016	10.37	38.91	1.33	0.85
2017	10.15	40.66	1.29	0.79

Financial leverage ratios are used as an indicator of the level of gearing that a company is exposed to. A highly geared company is undesirable while a lowly geared company indicates a failure to take advantage of cheap sources of finance such as debt. To calculate PepsiCo's financial leverage, the following ratios are used; debt to asset ratio, and Interest earned ratio. A debt-to-assets ratio shows how much of the company's assets can be used to cover debt. A low ratio is required though the context will always be looked at to ascertain whether the ratio needs to be high or low. On the other hand, the interest-earned ratio is an indication of how easily a company can pay off its debt obligations.

A high ratio is desired as it shows greater ability. In the case of PepsiCo, its debt-to-assets ratio indicates gearing as it hovers slightly below the 50% mark. This indicates that the assets are covered to almost half by debt therefore as much of the assets are used to pay debt as opposed to returns to investors. Additionally, the interest earned ratio is below 10 for the period under review. This is a

worrying trend as the ratio is too small an indication of PepsiCo's exposure to failure in meeting its debt obligations. Generally, therefore, there is an indication that PepsiCo is highly geared and this calls for its management to look at how they can take care of the gearing level before it spirals out of control. Table 2 indicates the values with respect to the financial leverage ratios.

Table 2

Financial leverage ratios

Year	Debt to asset ratio	Interest earned ratio
2015	48%	8.61
2016	50%	7.29
2017	49%	9.13

Profitability ratios are used to indicate the level of profit that an organization is operating on. Operating margin, profit margin, earnings power, return on assets, and return on equity are used to ascertain a company's profitability levels. The operating and profit margins relate to the profit generated after consideration of operating expenses only for the operating margin and an additional consideration of other expenses such as finance and tax for the profit margin. A high enough margin is desired. Earnings power indicates how much earnings a company can realize while the return on assets and equity are an indication of the returns per unit of assets invested for return on assets and returns per unit of equity invested in the case of returns on equity. A high ratio indicates that the company is returning a desired profit. In the case of PepsiCo, the operating margin has increased slightly over the period under review.

This is an indication that PepsiCo's performance as far as profit is concerned is improving. Conversely, the profit margin indicates a contrary trend where it increased in the year 2016 and then dropped in the year 2017. The realization is that PepsiCo's profit is increasing as per the operating margin but when it comes to the profit margin, the profit figure is affected. A consequence of such trends would be explained by PepsiCo's debt position which results in a higher expense in finance costs that have evidently increased over the period. Earnings power has remained relatively low but increased marginally over the period. Additionally, the return on assets and return on equity just as the profit margin reported an increase in 2016 which further dropped in 2017. Regardless, the return on equity is about 50% which is an indication of good returns probably affected by the debt levels that PepsiCo has been maintaining. This is evidenced in table 3.

Table 3

Profitability ratios

Year	Operating margin	Profit margin	Earnings power	Return on Assets	Return on Equity
2015	13.15%	8.66%	11.99%	7.9%	45.73%
2016	15.58%	10.16%	13.31%	8.68%	56.96%
2017	16.67%	7.78%	13.17%	6.15%	44.70%

Before investing, investors will need to understand how a company's shares are performing in the market. Ratios used to inform on PepsiCo's share performance in the market include the market share price, price-earnings ratio and the dividend yield. It is desirable that the market share price and dividend yield keeps increasing as it is an indication of confidence in the company. The price-earnings ratio is better understood if compared to for instance the industry or market average. From PepsiCo's financial statements, it is evident that the market price per share has been increasing (figure 1). That is 101.45 (2016), 104.99 (2016) and 119.92 (2017). This is an indication of confidence in the stock by the market possibly fueled by a consistent growth in the dividend paid 2.76, 2.96 and 3.17 in the years 2015, 2016 and 2017 respectively (figure 3). Additionally, the earnings per share grew in the year 2016 before dropping in 2017 (figure 2) which is the same case with the P/E ratio (figure 4). The drop is attributed to much of the earnings in 2017 being dedicated to the payment of debt as opposed to distribution to shareholders.

Cash flow is king and as a result, the cash flow statements are a key consideration to focus on while conducting financial performance analysis. A look at PepsiCo's cash flow statement indicates a growth in the cash inflows over the period under review. That is, \$ 9,096 in 2015, \$ 9,158 in 2016 and \$ 10,610 in 2017 which is a sign of a positive movement of cash inflows which is desirable. A further analysis of the specific items in the cash flow statement indicates that the net cash inflow from operating activities has decreased from \$ 10,864 in 2015, to \$ 10,673 in 2016 to \$ 9,994 in 2017. This is against the backdrop of the cash used in investing and financing activities having a slight change over the same period.

PepsiCo's financial performance seems stable over the period as the company has strong financial fundamentals. Except for one-off obligations such as the deconsolidation of its Venezuela subsidiary that led to a reduction of cash inflows and the requirement to make a cash provision for the TCJ Act which meant that PepsiCo had to commit cash, the general outlook for the company is good from a

financial perspective. Issues such as gearing will need to be taken in the context of the industry average so as to be able to know whether it is within acceptable limits.

Success factors and risks

As earlier mentioned, PepsiCo operates in a highly competitive industry therefore there is a need of a lot of focus from the company so as to ensure that they remain competitive. So far, PepsiCo has done a great job maintaining its market share and grossing an average of over \$ 10 billion in annual sales. This is a great achievement considering that it would be challenging to maintain constant and such high profits in an industry that is this competitive. Financial performance indicators presented earlier attest to the fact that PepsiCo has remained focused on its brand.

As a global brand, PepsiCo has been able to make its presence felt by producing diversified products that meet their customers' needs regardless of location. In this respect, PepsiCo has been able to launch and run over 22 different brands that have been able to gross over \$ 1 billion each in revenue in the year 2017. This has been made possible through PepsiCo having its products being sold on a global platform therefore having a wider market reach.

To achieve the success that it has had, PepsiCo has focused on the core strength of any company, its people. Focusing on its people, PepsiCo has been able to employ highly qualified individuals to run its different divisions. Additionally, they focus on ensuring that the representation of the employees fits its global stature. The same individuals have proved that they are focused on growing the company through opening new channels to reach its customers. One such initiative is coming up with an e-commerce platform as a new channel for growth.

PepsiCo is goal-oriented in its approach to the future and the critical elements in its plans are plants, products and people. In the 2025 goal statements, the organization emphasizes massive improvements in efforts like going green, education, nutrition and water efficiency that would be beneficial to the growth of the organization. some other non-financial factors that PepsiCo would capitalize on would be

1. Quality management- A significant factor at PepsiCo is optimizing quality based on business and consumer expectations. The human sustainability goals for PepsiCo aim to provide the highest quality products under the company's goals. For example, PepsiCo makes sure to improve its beverages with variants such as low-calorie Pepsi and less salt Frito Lays.
2. Process and Capacity Design – PepsiCo places high-value on process efficiency and capacity utilization and is poised to maximize its productivity-cost ratio. For example, PepsiCo manufacturing facilities are designed with a good output assembly line. And an automated production process for optimal efficiency (Busco et al., 2017).
3. Layout Design and Strategy. – Efficiency is vital to PepsiCo. People, materials, and information an

operations management concern in this strategic decision in any organization. The PepsiCo production facility is built around total quality management (TQM) (Busco et al., 2017).

4. inventory management. At PepsiCo, inventory management is built on automation at its core. Efficiency in scheduling and cost minimization are essential objectives in operations management. Computerized inventory management is used to ensure that manager can access real-time data to help with their management decision (Busco et al., 2017).

5. Design of Goods and Services. – PepsiCo has a new operations management that delivers excellent products through market-based research and development and product [innovation](#). for example, the need for variants like Pepsi zero, and salt-less Fritos (Busco et al., 2017)

Risks abound in any setting and as a result, PepsiCo is exposed to a myriad of risks. For instance, being a global company exposes the company to different cultures which they need to respect and preserve through product offerings and other means available. Without such, they easily may lose due to what may be termed as being culturally insensitive.

Consumers are getting more health conscious and one of the issues that they are focusing on staying away from are unhealthy foodstuffs and drinks such as sodas. These products perceived to be unhealthy are what make the core business for PepsiCo. With such health health-conscious populace, then the company is bound to lose some customers who may deem the products not to be healthy. This translates to PepsiCo losing out on the market. One way that they have considered to mitigate the issue is through the production of products that the consumer may deem appropriate for consumption as they do not harm the consumers. Some other products such as energy products may endear themselves to the consumer.

Being a global brand means that PepsiCo operates in many different jurisdictions that operate under different currency regimes. This results in exposure of PepsiCo to foreign exchange risk when the company is transacting in different currencies. Such exposures may lead to a gain or a loss that is not in the control of PepsiCo. A suggestion made to PepsiCo is that they will need to participate in the derivatives market where they can hedge against currency risks. Moreover, since they operate on a global scale, they can enjoy netting off of the currencies as one internal method of hedging.

PepsiCo operates in the manufacturing industry which means that they need to consume raw materials for the production of their products. The trend is that the price of raw materials and commodities has kept on rising threatening to wipe off profits made by the company. As such, PepsiCo will need innovative ways that can help them keep such costs down or better still a way to control the costs so as to maintain their margins.

Projections

Innovation is at the centre of PepsiCo's operations. This can be evidenced by the many different products that they have come up with that complement the organization. Their current financials indicate a strong company in terms of performance as indicated earlier. From the previous performance, it can be ascertained that the company is a going concern and as such they would be in operation for the foreseeable future. This is supported by the financial statements that has been provided over the years. Moreover, share performance is a clear indication that the market is confident with PepsiCo and is ready to support it. Also, changes made around PepsiCo's operations support the notion that they would be in existence for a longer period into the future. This is such as the tagline performance with a purpose which is an indication that the company will be in existence for the foreseeable future. Additionally, the company is now more focused on bringing in new innovative products, environmental protection and a focus on ensuring that the community around it is empowered.

Projections for future performance seem to be okay but are easily threatened by the fact that having a variety of products to sell in the market may make them lose focus. PepsiCo has been able to handle this by having divisions that manage the different products that they produce. This as a result ensures that there is a better focus on the products. Additionally, data shows that PepsiCo has plans to give over 3 billion servings of nutritious food and beverages to underserved communities and consumers. There are also plans underway to improve water use efficiency among direct agricultural suppliers. On the side of the products, PepsiCo has plans to further reduce the average amount of added sugar after removing the 372.000 metric tons of added sugar last year. Also 12% of sodium and 3% of saturated fat are further to remove to improve the quality of the products for the customer.

Business opportunities

PepsiCo produces a wide range of food and beverage products. The company focuses on ensuring that the consumer is served a PepsiCo product in every meal that they eat from breakfast, lunch and dinner. To ensure consumers pick their product, PepsiCo plans on launching a delivery service that will ensure that consumers can get their favourite product delivered to their doorstep. This will cut off a lot of intermediaries and the cost savings will result in the product becoming cheaper for the consumer therefore beating competitors in the price front. To complement the product delivery service, PepsiCo will launch an app, and hire drivers and delivery guys to support the logistics around the service. The app will enable customers to make orders of the product that will be delivered to their doorstep promptly hassle-free and at a cost that rivals that of the stores. To grow loyalty to their products, a loyalty program will be launched whereby members will pay a joining fee and will enjoy the products shipped and delivered to them without getting charged extra for the service.

An analysis of the new concept indicates that the cost implication will be minimal to both PepsiCo and

the consumer. This is because PepsiCo will load the new app to existing innovations which will ensure that the cost implications are at a minimum. On the customer front, all they will need is a smartphone where they will download the app for free. Once they get to an internet connection, they can be able to make an order that will be delivered promptly from the stores that will have been made available. The stores will be set up by willing PepsiCo partners who will get paid commission off the sales. Since the stores will not be exclusively PepsiCo's, the owners will be able to spread costs by stocking up on other products. Additionally, the cost savings from the automation will provide funds to pay the delivery guys.

Benefits from the home delivery and app service will be greater as another income stream is launched by the service. Projections indicate that the service will provide greater revenue streams at minimal costs. On the customer's front, it will reduce the need for the customer leaving their desks or homes to go and get their favourite PepsiCo product. This is because it will be delivered to them at no minimal charge which turns out to be more beneficial when they join the loyal customer service where additional benefits will be extended.

Recommendations

Investors of PepsiCo should be confident of their investment in PepsiCo. This is a result of the strong financial and non-financial information. To keep true to innovation, PepsiCo should go ahead and invest in the new development of home and work deliveries and the app. This is because it is a sure way to grow their revenue through having an additional revenue stream and the ability to satisfy the customer better which is paramount to the success of any business

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