

PepsiCo Board Stands by Nooyi

After a Strategic Review, Marketing Dollars Will Shift Back to Soda

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By [MIKE ESTERL](#)

A strategic review at [PepsiCo](#) Inc. is more likely to result in a renewed marketing push for its core soft drinks business—and sharp cost reductions to pay for it—rather than a rebuke of CEO Indra Nooyi or any drastic move such as a Kraft-style breakup.

PepsiCo will announce the results of the monthslong review in early February. In an interview, [James Schiro](#), one of PepsiCo's independent directors, speaking on behalf of the board, said Mrs. Nooyi enjoys the board's backing. "The board supports Indra and the management team, and its ability to execute its strategy and vision to create shareholder value," he said.

WSJ's Mike Esterl reports PepsiCo's board of directors, after a strategy review, has voiced support for CEO Indra Nooyi and will shift marketing dollars to the company's soda products. REUTERS/Mike Segar/Files

That kind of support is harder to find on Wall Street. Investor frustration has been raising the pressure on Mrs. Nooyi, who faces calls from some shareholders to split up the snacks and beverages company, which boasts annual sales of more than \$60 billion.

While PepsiCo has 19 brands that bring in retail sales of at least \$1 billion—including its namesake cola, Tropicana orange juice, Lay's potato chips and Quaker oatmeal—soda sales have been sluggish, profits have missed targets and the stock is down 1% over Mrs. Nooyi's five-year tenure.

A breakup of the company appears unlikely, although the board has looked at the idea.

A more likely palliative would be for PepsiCo to slash hundreds of millions of dollars in costs, including the elimination of thousands of jobs, and increase the marketing budget for its flagging North American beverages by around 20% this year, to pump life back into brands such as Pepsi after being heavily outspent by Coke in recent years.

In November directors and management extended a review of the business plan for

2012 "and beyond" after initially promising to update investors on its outlook by early December. The review is "rigorous" and several options are being considered, according to people familiar with the matter.

PepsiCo lowered its profit outlook twice last year, blaming higher commodity costs and a difficult consumer environment.

Critics also accused management—and Mrs. Nooyi in particular—of focusing too much in recent years on developing nutritious products at the expense of its large soda business, which has been losing market share to rival [Coca-Cola Co.](#) Pepsi not only trails Coke, the biggest-selling soda, but recently was surpassed also by Diet Coke in the U.S.

Meanwhile, Mrs. Nooyi, who became chief executive officer in October 2006, has pushed to more than double PepsiCo's revenue from "good for you" products, such as yogurts and Sabra hummus, to \$30 billion by 2020.



Enlarge Image

Bloomberg News

Indra Nooyi has dismissed talk that she paid too little attention to the company's soda business

"The results of the company have got investors really scratching their heads about whether [Mrs. Nooyi's] vision has helped the company," said Ali Dibadj, an analyst at Sanford Bernstein. "You can't take your eye off the ball, which it seems like management has done."

While PepsiCo's share price has lost ground over the past five year, shares in Coca-Cola, which sells only beverages, have soared 51% over the same period, to \$67.57.

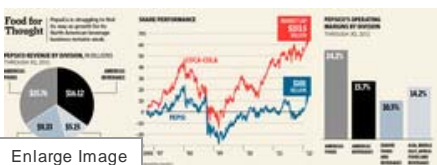
PepsiCo declined to make Mrs. Nooyi or other executives available for interviews, citing the ongoing business review. In a statement, PepsiCo said its board "has been fully engaged" in the business review and management is "committed to maximizing shareholder value."

Mrs. Nooyi, 56, has dismissed talk that she paid too little attention to the company's soda business. She also contends that healthier products from fruit, grain and dairy ensure long-term growth as more consumers shy away from sugary drinks and salty snacks. Last year, PepsiCo completed the acquisition of Russian dairy and fruit-juice maker OAO Wimm-Bill-Dann in a roughly \$5 billion deal.

Some impatient investors want PepsiCo to pull "a Kraft," that is, split up. Last year, [Kraft Foods Inc.](#) said it would split into two separate entities, a world-wide snacks business and a North American grocery business.

Proponents of a PepsiCo breakup argue the beverage business is dragging down its better-performing snacks business.

Wall Street number-crunchers have estimated PepsiCo's share price should be closer to \$75, not the current \$64.62, based on sum-of-the-parts valuations.



Enlarge Image

"I'd like for them to say, 'We're going to break up the company,' because I think the stock would go up 20%," said Walter Todd, chief investment officer at Greenwood Capital LLC in Greenwood, S.C. He said the firm owns about \$4

million in PepsiCo shares.

Mrs. Nooyi publicly has argued that PepsiCo's businesses are complementary and that it benefits from scale when it develops new products and delivers them to store shelves around the world.

Many in the industry also believe PepsiCo's beverage business would be left dangerously exposed as a stand-alone company and unable to compete against Coke, the world's largest beverage company.

"Having snacks and beverages together is not the problem," said John Faucher, an analyst at J.P. Morgan.

Mr. Faucher and others say the Purchase, N.Y., company needs to ramp up marketing investments in its beverage business. Many on Wall Street expect PepsiCo to increase marketing outlays by \$400 million to \$500 million this year, with most of it aimed at North American beverages.

PepsiCo is expected to partly offset that investment by culling personnel. As part of that plan, executives have weighed consolidating several regional offices of its U.S. beverage business, according to people familiar with the matter.

Those and other changes could result in the layoff of about 4,000 of its 300,000 employees world-wide.

Dara Mohsenian, an analyst at Morgan Stanley, expects PepsiCo to announce \$300 million to \$500 million in cuts. But he also expects earnings-per-share growth of only around 3.5% in 2012.

That is below management's most recent guidance that annual profits will grow at a high-single-digit percentage, and far removed from the double-digit earnings growth it promised a couple of years ago.

PepsiCo began pumping money back into Pepsi-Cola last year, launching its first new TV advertising campaign for the flagship soda in three years and plowing \$60 million into sponsoring "The X Factor." Next month Pepsi-Cola will appear in its first Super Bowl ad since 2009.

Last September it said that Frito-Lay North America snacks chief Al Carey was taking the helm of Americas beverages, succeeding Eric Foss and Massimo d'Amore, who had co-run the \$20 billion division. It also named [John Compton](#), head of its Americas-wide food division, to oversee a "Power of One" council to better integrate the beverage and snacks businesses.

Some investors say they believe PepsiCo is well positioned to thrive on the strength of its major brands, which also include Mt Dew soda, Gatorade sports drinks and Doritos chips.

"To me, PepsiCo is just like a beach ball being pushed underwater," said Donald Yacktman, chief investment officer at Yacktman Asset Management in Austin, Texas, adding PepsiCo's current business model is "excellent."

Mr. Yacktman said his firm holds about \$1.4 billion in PepsiCo shares, or about a tenth of its investment portfolio, and is a long-term investor.

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