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The Financial Statement Analysis of PepsiCo

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Abstract: This paper analyzes the business strategy and financial performance of PepsiCo. PepsiCo is one of the most successful consumer goods companies in the world. With the demand of business expansion, PepsiCo has just experienced the 2019 coronavirus disease period. It is necessary to have an in-depth understanding of PepsiCo's performance to understand what strategy PepsiCo is taking and PepsiCo's performance in this unique period. I have determined the strategy of Starbucks through Porter's five forces analysis, SWOT analysis and value chain analysis, and given the overall strategy adopted by PepsiCo. Next, i will first give an overview of PepsiCo' annual report. Then, i made a common size analysis on the three financial data. This analysis reveals PepsiCo's ability to operate well and generate revenue in the future. It is hoped that it can provide enlightenment for the operation of consumer goods companies, and stakeholders can have a new understanding of PepsiCo.

Keywords: strategy, financial statement, common-size analysis

1. Introduction

PepsiCo is one of the most successful consumer goods companies in the world, with 140000 employees in more than 200 countries and regions around the world. In 2004, its sales revenue was $29.3 billion, making it the fourth largest food and beverage company in the world. Pepsi Cola, the predecessor of Pepsi, was founded in 1898 [1].

According to PepsiCo's press release and relevant introduction, PepsiCo merged with Fritolay, the world's largest snack food manufacturer and distributor, in 1965 to form PepsiCo [1][2][3]. Pizza Hut, KFC, and Taco Bell spun off in October 1997 to become an independent public company, TRICON. In 1999, Pepsi spun Pepsi cans off the public market and focused on creating and marketing them. PepsiCo has divested its non-strategic businesses through mergers and acquisitions of several core businesses. In 1998, PepsiCo merged with Tropicana Products, the world's leading fresh-pressed processor. PepsiCo launched fruit juice drinks, energy drinks, and milk drinks in 2000; it has now included tea drinks, SOBE drinks and other products containing plant ingredients into its business scope, and has developed a series of new drinks. In 2001, under the unconditional authorization of the US Federal Trade Commission, PepsiCo successfully bought "Quaker" from the global non-carbonated beverage market at a price of US$13.4 billion. After the Pepsi merger, the focus will be on fast food and beverages. PepsiCo International has more than 200 distribution networks outside the United States and Canada, and is a leader in PepsiCo's food and beverage industry outside North America. Many of Pepsi's brands are more than 100 years old and overall very young. PepsiCo merged PepsiCo and Frito-Lay in 1965 and was officially established since then. In 1998, PepsiCo

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acquired Tropicana and Vegger. PepsiCo products cover all needs and preferences, from leisure to healthy living.

PepsiCo has been successfully running its own business for decades. As consumer goods are indispensable to people and also play an important role in the economy, I would like to make a more comprehensive analysis of Pepsi's recent industry and financial performance, especially when Pepsi Cola has experienced a big wave while trying to expand its business globally, we would like to make an in-depth study of its financial situation.

Hopefully, this paper can provide some business enlightenment for companies engaged in beverage retail business and food industry, especially when the industry is experiencing stagnation and the company is trying to expand its business. In addition, the analysis can also bring some insights to potential PepsiCo future investors and lenders who want to understand the financial performance of a specific historical period.

The first part is the background introduction of PepsiCo and the description of the motivation and contribution points of this paper. The second part is the analysis of PepsiCo, the first is the analysis of strategy, including the analysis of five forces model, SWOT, generic strategies and value chain. Then there is accounting analysis, including income recognition, goodwill and acquisition and common-size analysis. The last part is the conclusion and discussion.

2. The Analysis of PepsiCo

2.1. Strategy

2.1.1. Five forces analysis

(1) Treats of new entrants:

The beverage and convenient food industry has low treats of new entrants in general, the reasons are as follows.

Economies of scale: The company sale products and make profits with low price but large volumes and markets.

High capital requirements: As the industry needs to enlarge the scale of markets to gain more profits, it needs high initial investment and marketing price to support its large markets.

Many government policies: The industry has to comply with many legal regulations that require huge investments. Relevant regulations in the United States require industry to follow, but are not limited to state food safety regulations. They are also subject to state and local laws, including state consumer protection. Outside the United States, they are also subject to many similar and other laws, including food safety, international trade, tariffs, and supply chains.

Bargaining power of suppliers:

The industry has high bargaining power to suppliers, the reasons are as follows.

Low supplier concentration: Many raw materials, raw materials and commodities are available from the market. In addition, purchasing from multiple suppliers can reduce the supply risk of some raw materials.

Low customer switching cost: As mentioned in supplier concentration, the company purchase in the open market which needs low switching cost.

Supplier do not offer a differentiated product: The main ingredients are apples, oranges and sugar, vegetable oils and essential oils. They are all commonly used ingredients in the market.

Substitutes for supplier products are common in market: Because all ingredients used in beverage and convenient food products are common.

(3) Bargaining power of buyers: The industry has low bargaining power to buyers, the reasons are as follows.

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Low customer concentration: There are many brands of beverage and convenient food and customers have many choices.

Low customer switching costs: Because the price of products are low and customers can buy a small number of products, so the customer have low switching costs.

Undifferentiated products: The beverage and convenient food are common in the market.

(4) Threats of substitutes: The industry has high treats of substitutes, the reasons are as follows.

Closeness of substitute: There are many categories of beverage and convenient food in the market.

Performance/price ratio of substitute: the price of products in the industry is low and so do their substitutes, so the price ratio of products and their substitutes are highly close to 1, so they are in highly competitive markets.

(5) Industry rivalry: The industry rivalry is extremely high, the reasons are as follows.

Many competitors of roughly equal size and power: Competitors with beverage and convenience food companies include Coca-Cola, Hormel Foods, Link Snacks, but not limited to.

Slow industrial development: The beverage and convenience food industries are slow and highly competitive.

2.1.2. SWOT Analysis

Table 1 report the swot analysis of PepsiCo, which include strengths, weakness, opportunities and threats.

Table 1: SWOT analysis.

Strengths: 1. Cost advantage through economies of scale 2. Diversified products 3. Geographical footprint	Weaknesses: 1. Unhealthy product 2. High management fee 3. Product quality and safety
Opportunities: 1. The rapid changing market 2. Huge market potential 3. The improvement of information system	Threats: Coronavirus Competitors

2.1.3. Generic Strategies

The company has both differentiation and cost leadership strategies.

Differentiation: Diversified products can indeed attract consumers with different preferences, and advertising star effect can also attract consumers, to open the popularity of the product. Launching related activities to attract consumers to participate also increased the sales of products.

Cost leadership: PepsiCo compared with other beverage companies, has an advantage in its wholesale price. PepsiCo's adoption of increasing the volume and not increasing the price is an effective measure to attract consumers.

For differentiation, PEPSICO can continue forever. Diversified products can indeed attract consumers with different preferences. Today's consumers are also chasing some more novel tastes; and advertising star effect can indeed attract consumers to open the popularity of the product. Launching related activities to attract consumers to participate also increased the sales of products. For cost leadership, Pepsi-Cola's adoption of increasing the volume and not increasing the price is an effective measure to attract consumers. It can buy more products at the same price, and PepsiCo compared with other beverage companies, has an advantage in its wholesale price. Simply put, is lower cost. In summary, the above strategies can be carried out in the long run.

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2.1.4. Value Chain: Primary Activities

Operation:

(1) PepsiCo adds more diverse ingredients to new and existing products to make products more beneficial to the earth's ecology and human health.

(2) Production: The company expanded and expanded its multi-year productivity program with the goal of saving at least $1 billion in productivity annually by 2026.

Marketing & Sales:

(1) PepsiCo looking for local celebrities, and producing popular local celebrity advertisements to attract many consumers.

(2) Increased consolidation of retail ownership.

(3) International expansion of hard discounters.

(4) Financial incentives: The company rely on and provide financial incentives to their customers to assist in the distribution and promotion of their products to the consumer.

Service:

(1) The most important service for the beverage and convenient food is to guarantee food safety and health.

(2) Timely feedback system for consumers on products.

Inbound logistics:

(1) Sourcing high quality materials: This company is currently engaged in active farming and they are working to rebuild the planet by purchasing food and raw materials to strengthen the farmer community.

(2) Suppliers: The company plan on launching a Positive Agriculture Playbook for their suppliers at their Supplier Summit this year. It increases their spend with diverse suppliers, which could help the company to choose the lowest ingredients and can also strengthen the bargaining power to suppliers.

Outbound logistics:

(1) Direct-Store-Delivery: The company's independent bottling distributors and distributors operate DSD systems that deliver beverages and convenience foods directly to retail stores. DSD allows businesses to maximize the quality and appeal of their products.

(2) Customer warehouse: Some of the company's products are transported from production workshops and logistics centers to customers' warehouses.

2.1.5. Value Chain: Support Activities

Firm Infrastructure:

Adhering to the philosophy of "Winning the Way", PepsiCo's vision is to become the global leader in snack food and beverages [2]. "Winning is the right way" reflects PepsiCo's determination to pursue sustainable market success and integrate the company's philosophy into all aspects of its business.

Human Resource Management:

(1) Employee volunteering and training program: PepsiCo has launched a new employee volunteer and training program around the world, aiming to encourage and support employees to have a positive impact on local society and enhance employees' leadership and professional skills [2].

(2) Staff management: Advancing their Racial Equality Journey, including growing our Black and Hispanic managerial populations in the U.S.

Technology Development:

(1) PepsiCo has set scientific goals in its product portfolio to produce foods with healthier oils, accelerating the reduction of added sugars in products.

(2) Water efficiency technology: In 2021, they began a partnership with N-Drip to help farmers around the world to adopt water efficiency technology across 10,000 hectares by 2025.

Procurement:

(1) Payable management and managing supplier relationship: the company do payable management, they maintain voluntary supply chain finance agreements with several participating global financial institutions.

(2) Work with farmers around the world to provide training.

(3) Use an equivalency framework to recognize crop volumes.

2.2. Accounting Analysis

2.2.1. Revenue Recognition

According to PepsiCo's annual report [4-7]. When performing tasks, PEPSICO recognizes revenue. PEPSICO's primary fulfillment responsibility (sales and sales of beverages and convenience foods) is when the product is shipped or delivered to our customers, which is when the transfer of control takes place. Giving control of the product to our customers is generally based on a no-return clause. But PepsiCo's DSD strategy, including some frozen items, is to ensure customers get the quality and fresh products they want, removed and replaced from shelves. Similarly, PEPSICO's sales strategy in some warehouses is to replace broken and expired items. As a result, broken or obsolete products are expected to appear in PepsiCo's inventory records. Items from 30 to PEPSICO can be purchased with cash or credit. PEPSICO's credit terms are determined in accordance with local and industrial practice and generally provide for payment within 30 days of shipment in the U.S. and 90 days internationally, with prepayment benefits available. PepsiCo's revenue recognition method creates a false increase in profits. Consumers may not drink Coca-Cola immediately after buying it. Probably they will find a problem with the product and ask for a return. At the same time, income should be reduced accordingly.

2.2.2. Goodwill and Acquisition

There is goodwill on PepsiCo's balance sheet [8, 9]. On February 3, 2020, According to a Pepsi press release [9], PEPSICO acquired Baicao flavor (one of China's leading online leisure and snack enterprises) for us $705 million (about 5 billion yuan). According to PEPSICO's statement, the success of this acquisition can help PEPSICO and Baicao flavor complement each other in manufacturing, sales and brand innovation. In the sameyear, on March 11, PEPSICO acquired Rockstar energy beverages (hereinafter referred to as "Rockstar"), a functional beverage manufacturer, at a price of up to US $3.85 billion (equivalent to about 26.8 billion yuan). Energy drinks have always been PEPSICO's weakness. The acquisition of Rockstar energy beverages is to make up for its weakness and enjoy the development dividend of energy drinks. However, at present, there are many brands of energy drinks in the Chinese market, and Pepsi is under great pressure to enter at this time [10].

Table 2: Goodwill on PepsiCo's balance sheet.

	2015	2016	2017	2018	2019	2020	2021	TTM
Goodwill(%)	20.3	19.6	18.5	19.1	19.7	20.2	19.9	19.5

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2.2.3. Common-size Balance Sheet

Convert the balance sheet into a common -size balance sheet, expressed by dividing each item by total assets. It can clearly understand the composition ratio of corporate liabilities and equity and the percentage of various assets in the total assets.

Table 3: Common size balance sheet.

other current assets	1.99%	0.05%	-	total current liabilities	28.38%	25.15%	26.05%
total current assets	23.58%	24.75%	22.46%	non-current liabilities			
non-current assets				long-term debt	39.00%	43.45%	37.11%
property,plant and equipment				Deferred income tax	5.22%	4.61%	5.21%
gross property,plant and equipment	52.88%	51.67%	56.72%	Minority interests	0.12%	0.11%	0.10%
accumulated depreciation	-26.44%	-26.87%	-30.17%	other long-term liabilities	9.91%	12.20%	12.70%
net property,plant and equipment	26.44%	24.79%	26.55%	total non-current liablities	54.25%	60.37%	55.13%
goodwill	19.90%	20.19%	19.73%	total liabilities	82.63%	85.52%	81.18%
intangible assets	20.21%	20.79%	20.42%	stockholder's equity			
long-term investment	2.84%	3.00%	3.42%	common stock	0.02%	0.02%	0.00%
long-term notes receivable	0.12%	0.12%	0.11%	retained earnings	70.54%	68.28%	78.86%
other long-term investment	6.91%	6.36%	7.30%	Capital reserve	4.33%	4.21%	4.95%
total non-current assets	76.42%	75.25%	77.54%	treasury stock	-41.40%	-41.38%	-46.81%
intangible assets	20.21%	20.79%	20.42%	stockholder's equity			
long-term investment	2.84%	3.00%	3.42%	common stock	0.02%	0.02%	0.00%
long-term notes receivable	0.12%	0.12%	0.11%	retained earnings	70.54%	68.28%	78.86%
other long-term investment	6.91%	6.36%	7.30%	Capital reserve	4.33%	4.21%	4.95%
total non-current assets	76.42%	75.25%	77.54%	treasury stock	-41.40%	-41.38%	-46.81%
intangible assets	20.21%	20.79%	20.42%	stockholder's equity			
long-term investment	2.84%	3.00%	3.42%	common stock	0.02%	0.02%	0.00%

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Table 3: (continued).

long-term notes receivable	0.12%	0.12%	0.11%	retained earnings	70.54%	68.28%	78.86%
other long-term investment	6.91%	6.36%	7.30%	Capital reserve	4.33%	4.21%	4.95%
total assets	100%	100%	100%	total other equity	-16.13%	-16.66%	-18.21%
				total stockholders' equity	17.37%	14.48%	18.82%
				total liabilities and stockholder's equity	100%	100%	100%

The proportion of total assets, total liabilities and total assets in 2021 will be 24%, 83% and 17% respectively, indicating that the company's current assets and liabilities are relatively high. Over80% of the capital comes from debt, and less than 20% comes from equities.

In 2020, the company had better cash, cash equivalents, and short-term investments, reaching an all-time high in three years. The largest long-term debt ratio.

Table 4: Structure of the debt obligation.

	2021	2020
Short-term debt obligations		
Current maturities of long-term debt	$ 3872	$ 3358
Commercial paper(0.1% and 0.2%)	400	396
Other borrowings(2.2% and 1.7%)	36	26
	$ 4308	$ 3780
Long-term debt obligations		
Notes due 2021(2.2%)	$ -	$ 3356
Notes due 2022(2.4% and 2.5%)	3868	3868
Notes due 2023(1.5% and 1.5%)	3019	3017
Notes due 2024(2.1% and 2.1%)	2986	3067
Notes due 2025(2.7% and 2.7%)	3230	3227
Notes due 2026(3.2% and 3.2%)	2450	2492
Notes due 2027-2060(2.6% and 2.8%)	24313	24673
Other,due2021-2027(1.3% and 1.3%)	32	29
	39898	43728
Less:current maturities of long-term debt obligations	3872	3358
Total	$ 36026	$ 40370

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To look the structure of the debt obligation in details, the diagram shows that in 2021 it had higher short-term debt obligation of $528 million more than in 2020.But there is $3830 million less in long-term debt obligation, and the difference of that is mainly existing in debts due 2027-2060.

Table 5: Assets and liabilities held for sale.

PepsiCo balance sheet						
	2021		2020		2019	
Assets held for sale	1788	1.94%	-	-	-	-
Liabilities held for sale	753	0.82%	-	-	-	-

And in 2021, there will be assets and liabilities left to sell, like a juice deal. This is a sign of the effectiveness of the Covid-19 virus and businesses' efforts to mitigate the lingering impact of the outbreak.

2.2.4. Common-Size Income Statement

Convert the income statement into a common-size income statement, which is obtained by dividing each item by total revenue.

Table 6: Common-size income statement.

Pepsi Income Statement						
	2021		2020		2019	
Net Revenue	79474	100.00%	70372	100.00%	67161	100.00%
Cost of sales	37075	46.65%	31797	45.18%	30132	44.87%
Gross profit	42399	53.35%	38575	54.82%	37029	55.13%
Selling, general and administrative expenses	31237	39.30%	28495	40.49%	26738	39.81%
Operating Profit	11162	14.04%	10080	14.32%	10291	15.32%
Other pension and retiree medical benefits income/(expense)	522	0.66%	117	0.17%	(44)	-0.07%
Net interest expense and other	(1863)	-2.34%	(1128)	-1.60%	(935)	-1.39%
Income before income taxes	9821	12.36%	9069	12.89%	9312	13.87%
Provision for income taxes	2142	2.70%	1894	2.69%	1959	2.92%
Net income	7679	9.66%	7175	10.20%	7353	10.95%
Less: Net income attributable to noncontrolling interests	61	0.08%	55	0.08%	39	0.06%
Net Income Attributable to PepsiCo	7618	9.59%	7120	10.12%	7314	10.89%

According to the common-size income statement analysis, in the company's net profit in 2021, sales expenses and profits will be 46.65% and 53.35% respectively, and the net profit will be 9.66%. Net income, or net income after tax, was 9.59%, reflecting the health of the company's core business. You can compare last year's net profit to see the company's annual performance. This number has declined slightly over the past few years. Operating profit to increase 10.7 percent in 2021. The increase in the company's operating income was primarily due to the company's net income and savings in selling, general and administrative expenses, and a reduction in selling expenses. Other pensions and retirees' health insurance benefits turned negative in 2019 as Company A's plan purchased a collective annuity contract. The agreement resulted in a pre-tax settlement fee of $220

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million in 2019. At the same time, in 2020, the company also included a one-time payment of $205 million, which is more than the annual service and interest expenses combined, so these figures are expenses.

PepsiCo is one of the most successful consumer goods companies in the world, with 140000 employees in more than 200 countries and regions around the world. In 2004, its sales revenue was $29.3 billion, making it the fourth largest food and beverage company in the world. Pepsi Cola, the predecessor of Pepsi, was founded in 1898 [1].

3. Conclusion and Discussion

In a word, PepsiCo is gradually recovering from the impact of covid-19, and they have great growth potential. Although PepsiCo did well in this fiscal year, there are still some problems worthy of attention. High liabilities take measures to prevent problems before they occur. The fierce competition in China's market requires more attention from managers. Most importantly, the performance of Chinese and developing country markets is worth observing.

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