PepsiCo's Earnings Analysis and Strategic Management

- Based on SWOT and PF5 Analysis

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Abstract: Global production and economic conditions are gradually shifting and improving as the COVID-19 scenario throughout the world evolves. Studying the financial statements and other publicly available information of beverage industry companies can help external information users understand the specific situation and support investors, the market, and other investors in making investment and decision-making decisions. The overall strategy and economic situation of these companies gradually become a concern. As a major player in the market, PepsiCo is well-represented, and its analysis may provide valuable insights into the current situation of the industry. Based on these insights, one can draw conclusions about the existing and potential future conditions of other businesses. The overall financial situation and corporate strategy of PepsiCo's financial statements and public disclosures from 2020 to 2022 are further examined and analyzed in this paper. Additionally, the real present status of the company's revenue shifts and overall strategy is forecasted and analyzed.

Keywords: COVID-19, PepsiCo, Financial analysis strategy

1. Introduction

At the beginning of 2019, COVID-19 caused a global COVID-19 outbreak. The New Crown Pneumonia COVID-19 epidemic had a similar impact on the economics of many different nations. The government's efforts, together with the steady advancement of vaccinations and treatments, allowed for COVID-19 to be contained and the economy to gradually improve. diverse industries experienced varied economic effects and were impacted by diverse causes during the COVID-19 pandemic. Relatively clear was the influence on the food and beverage businesses, which are directly associated with people's daily lives.

Pepsi-Cola is a globally recognized American multinational corporation. As one of the largest food and beverage companies in the world, Pepsi-Cola holds a major position in the market with a brand value of $11.5 billion. Since 2020, Pepsi-Cola's business has been affected to some extent by the COVID-19, in this case it is more important to focus on the strategic management shifts in the business and consider a change in strategy to deal with the risk of a secondary COVID-19 raging, while seeking to ensure business continuity.

This paper examines the financial statements of Coca-Cola after the epidemic and analyses the data and strategies and finally gives recommendations. The main research methods used in the paper

are case study method, literature analysis method and so on. The conclusions will help Coca-Cola to make better strategic planning and implement risk countermeasures.

2. Data Analysis

2.1. Profitability Metrics

Table 1: $EPS = Net\ Income/Weighted\ Average\ Shares$

	2022	2021	2020
EPS	2.20	2.26	1.80

Table 2: $Return\ on\ Equity(ROE) = (Net\ Income/Shareholders'\ Equity) * 100$

	2022	2021	2020
ROE	37.05%	39.44%	36.50%

Table 3: $Sales\ Growth = ((Current\ Year\ Revenue/Prior\ Year\ Revenue) - 1) * 100$

	2022	2021	2020
Sales Growth	11.25%	17.09%	-11.41%

Table 4: $Asset\ Turnover = (Total\ Revenue/Total\ Assets) * 100$

	2022	2021	2020
Asset Turnover	46.36%	40.98%	37.81%

First, according to table 1, from a growth perspective, earnings per share is an important source of data. In Pepsi's income statement, earnings per share first rose from 1.8 to 2.26 before dropping to a negative 2.20 in 2022. Additionally, as shown in table 3, the sales growth rate is indicative of Pepsi's growth profile. The total sales growth trend is curvilinear, with growth actually at - 11.41% in 2020 before rebounding to 17.09% in 2021 and then declining to 11.25% in 2022, which is generally unstable. The outbreak has affected the company's operations, resulting in a slight decline in earnings per share from 2021 to 2022 but overall no major fluctuations, indicating that Pepsi's profitability is good, and despite the fact that the sales growth rate has also taken the form of a slight decline, the company's risk planning and all-encompassing strategy has allowed Pepsi to continue to operate in a stable manner.

Secondly, profitability is also a view emphasized by fund managers, investors and shareholders. As shown in table 2, Pepsi's return on equity has shown an overall increase over the past three years, rising from 36.5% to 39.44% and then declining to 37.05%, and although there has been a slight decline in 2021-2022, Pepsi's return on equity has been relatively stable, and even with the COVID-19 No major fluctuations have occurred. The stable return is attractive to investors and shows that Pepsi still has a relatively stable profitability in the midst of the COVID-19.

Finally, according to table 4, Pepsi's asset turnover ratio shows a steady increase from 37.81% in 2020 to 40.98% in 2022 and 46.36% in 2022, indicating that Pepsi's assets are in good condition, the supply of the capital chain is flexible and adaptable to the demand, and there will not be any problems related to the impact on the company's business due to the turnover of the funds, even in the case of the COVID-19 that brings a lot of uncertainty factors, Pepsi has sufficient risk prevention ability. Pepsi has sufficient risk prevention capacity even in the event of many uncertainties brought about by COVID-19.

2.2. Liquidity Metrics

Table 5: Current Ratio = Current Assets/Current Liabilities

	2022	2021	2020
Current ratio	1.15	1.13	1.32

As shown in table 5, in Pepsi's balance sheet, there is a downward trend in cash, marketable securities, and short-term investments, and therefore total current assets decline. The liquidity ratio is 1.32 in 2020 and then decreases to 1.13 before recovering slightly to 1.15 in 2022. This shows that the company is trying to improve its ability to service its debt in the short term to cope with the unstable market affected by the outbreak and to reduce the likelihood of unfavorable situations to the company's operations due to liabilities. This shows that Pepsi has a risk-averse attitude. Its strategy will focus more on how to successfully navigate through the risky period.

2.3. Credit Metrics

Table 6: Debt to Equity Ratio = Total Debt/Shareholders′ Equity

	2022	2021	2020
Debt to Equity	2.59	2.80	2.99

Table 7: Financial Leverage Ratio = Total Assets/Shareholders′ Equity

	2022	2021	2020
Financial Leverage	3.59	3.80	4.10

Finally, according to table 6 and 7, the researchers used DuPont analysis to show Pepsi's attitude towards risk over the past three years. The data from the ratio analysis clearly shows that Pepsi's debt to equity ratio has decreased from 2.99 to 2.80 and then to 2.59 in 2022. This positive trend shows that Pepsi's liabilities have decreased and thus the risk to investors has decreased, the owner's equity ratio has increased, and Pepsi has reduced its debt risk to enhance its ability to raise capital, which also shows that Pepsi has an effective risk aversion plan. In addition, the financial leverage ratio decreases from 4.10 to 3.80 and then to 3.59, which indicates that Pepsi prefers to avoid risks as much as possible to reduce the uncertainty due to the pandemic and to ensure that the company passes through the risky period smoothly, which is different from the risky strategy before the pandemic. Pepsi is now more risk sensitive due to the growing uncertainty in the pandemic.

3. Qualitative Analysis

3.1. SWOT Analysis

SWOT analysis, also known as situational analysis, was introduced in the 1960s by a professor of management at the University of San Francisco as a way to analyse and study the reality of a unit in a more objective and accurate way.

3.1.1. Strengths

a. A distinctive brand image. Pepsi is a well-known brand with a distinctive identity. Its soft drinks are among the most popular drinks ever sold. Customers of all ages are drawn to it by its recognizable emblem, timeless red and white color scheme, and well-known jingles.

b. Robust distribution system. Pepsi distributes 1.6 billion servings of its products daily, has distribution in more than 200 countries, and has launched a number of new items globally. Some of these are Pepsi drink variations, like the recently released limited edition French Style bottle or co-branded sugar-free colas with well-known IPs. It is well acknowledged that the brand has an impact on every lifestyle and people on the planet.

PepsiCo does not have the same access to independent bottlers, wholesalers, retailers, and company-owned and controlled distributors. With the help of this system, Coca-Cola is able to tightly control expenses, launch new products fast, and dominate a number of regional marketplaces. As far as internal processes are concerned, the company's strength lies in its simple and linear processes that make strategies easy to implement and easy for employees to understand [1]. PepsiCo has also been able to raise the standard of product safety and quality control thanks to its distribution network. A reliable distribution network has been quite helpful in recent years as the business has been trying to reach out to new clients in isolated locations exclusively. During the crucial phase, these many operating firms have aided with market share, volume, delivery, and product launch.

c. Customer Devotion. PepsiCo boasts a devoted following of customers who, once they become aficionados of the company's goods, seldom switch to other brands. It is tough to locate alternatives, and customers are quick to identify their own tastes.

3.1.2. Weakness

An essential component of every product made by the company is water. Water is essential for the agricultural products that are used in the creation of Coca-Cola. Furthermore, water is required for the primary production operations of Coca-Cola. Furthermore, water is essential to Coca-Cola's participation in local markets.

Due to overexploitation, water is a limited resource in many regions of the world that is experiencing previously unheard-of difficulties. Food and other consumer and industrial goods that need water to be manufactured are in high demand at the same time. The likelihood of pollution, poor management, and climate change is increased by these activities. The quality of the available water sources may decline dramatically as global water demand rises and water supplies are more limited. This might result in increased costs for the PepsiCo system or capacity issues. This can have a negative impact on its net operating income or profitability in the long run.

3.1.3. Opportunities

a. Branding and developing markets in developing countries. The center of gravity of brand building is product quality. Quality determines everything, products without quality, even if they possess other advantages, will eventually be rejected by consumers[2]. Pepsi's brand effect should not be underestimated, so it can be utilized to increase business in developing countries such as regions with large profit margins, the Middle East and African countries are a good example.

b. Introducing advanced supply chain systems.PepsiCo's business is highly dependent on logistics and supply chain. Transportation costs and fuel prices have been on the rise. Therefore, presenting an advanced and improved distribution system could be an opportunity.

3.1.4. Threats

a. Health Issues. One of the main ways that people consume sugar is through carbonated drinks. Obesity and diabetes are two major health issues that result from it. The usage of these drinks has been recommended by several health experts, which presents a challenge for the corporation.

b. Competition, both direct and indirect. Many other businesses compete indirectly with Pepsi, despite the fact that Coca-Cola is the market leader in direct rivalry. Pepsi confronts a number of risks

as a result of changes in the market, regulations, and socioeconomic conditions. Indirect competitors of Pepsi include Starbucks Coffee, Rachel's Coffee, Pure Fruit Delight, Lipton Juice, and Nescafe, which might jeopardize the company's position in the market. Even though they don't directly compete with PepsiCo, businesses like Starbucks cause damage to PepsiCo's market share. To boost consumer loyalty, these companies provide healthier and distinctive options to their patrons, along with competitive incentives that Pepsi struggles to match.

Additionally, customers may purchase private label alternatives to standard Pepsi products from smaller franchises and retail chains, enabling these companies to sell beverages at a lesser cost.

3.2. Porter's Five Forces Model Analysis

Michael Porter first presented the Five Forces concept in the early 1980s, and it has had a significant and worldwide influence on the creation of corporate strategies. It is useful for analyzing competitive strategy and may be applied to efficiently analyze the competitive landscape of a customer.

3.2.1. Competition within Existing Industries

Beverage market, consumer behavior changes from economic, social, cultural, age and gender technology applications and other factors [3]. In the beverage industry, it has long been the situation that Pepsi and Coca-Cola are the two dominant players, and from time to time there are emerging brands in the market to occupy a small part of the position, but the dominant players in the market are still Pepsi and Coca-Cola, and Pepsi is in the leading position in terms of its business scope and innovation, so there is no unfavorable business situation due to competition.

3.2.2. Bargaining Power of Buyers

In recent years, the prices of raw materials have tended to rise, especially in the wake of COVID-19 and in the context of a sluggish economic environment, where the bargaining power in this space is gradually diminishing. Due to Pepsi's strong reverse integration process, the directly relevant buyers are consumers and distributors. It has a highly viscous user base, but at the same time, buyers have low switching costs and distributors have more bargaining power than consumers in terms of volume.

3.2.3. Bargaining Power of Suppliers

With the rise of trade protectionism globally, it has become increasingly important for firms to stabilize and expand in their markets [4]. Pepsi has a largely monopolized position in the market and Pepsi owns the raw material production and processing industries such as minerals and plantations. Suppliers are highly dependent on Pepsi due to its larger intake and forward integration process and have a good relationship of win-win cooperation and higher switching costs, resulting in weak bargaining power.

3.2.4. Threat of Potential Entrants

In the global beverage market, especially the carbonated beverage market, with the current monopoly of Pepsi and Coca-Cola, it is not difficult for new brands to enter this market, and due to Pepsi's superior cost control business process, it creates cost barriers to enter the soft drink industry, but at the same time, Pepsi is becoming more and more popular among young people due to its low price, good taste and the advantages of fast product updates, which makes more and more beverage brands imitate its business philosophy to transform, so there is a small portion of the threat but it will not affect the overall situation[5].

3.2.5. Threat of Alternatives

Due to the growing concern for a healthy diet and further awareness of carbonated beverages, people are more in pursuit of healthy beverages, especially after COVID-19, people are more and more aware of the importance of eating healthy. The market of its alternatives non-carbonated beverages is developing rapidly, sports drinks, juice drinks, and tea drinks are all substitutes for PepsiCo, which takes carbonated beverages as its main business, and is increasingly seizing the beverage market share, threatening PepsiCo's share of the beverage market [6].

4. Conclusion

The result of the quantitative analysis is that Pepsi's operations fluctuated during the COVID-19. The company's growth and profitability slowed down due to COVID-19. Changes in the financial structure showed the company's liquidity and debt servicing problems. By analyzing the company and combining it with the current situation where COVID-19 is not long over, the researcher suggests that Pepsi can increase its scope of development in developing markets in Asia, especially in China and other places.

The results of the qualitative research indicate that Pepsi's existing strategic programs are being implemented more successfully. Its products are highly competitive in the market but lack substitutability. On the one hand, Pepsi has been affected by the impact of COVID-19 and its health concepts coupled with the impact of the outbreak. On the other hand, its financial leverage ratio shows that the debt ratio has shifted to a risk-averse strategy in the wake of COVID-19, resulting in its financial perspective failing to meet its financial objectives. The performance of its internal processes mainly monitors its inventory turnover and cost management strategies and upon review, Pepsi has good controls to rule out COVID-19 risk.

The paper can be further refined in terms of macro and peripheral environmental analysis, while the use of empirical analysis can better test the feasibility of strategic options. Future research will further refine on this basis, provide more precise industry information by not using methodological models, and propose a more targeted strategic plan for the company.

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