

**IRI
Growth
Insights**

C-SUITE
CONVERSATIONS



PEPSICO

PepsiCo's Operational Excellence During COVID-19

August 14, 2020

IRI has expanded its Growth Insights thought leadership offering to include the new [C-Suite Conversations](#) with CPG and retail industry leaders. COVID-19 is impacting the shape of the CPG demand curve, with consumers changing how, what and where they purchase. As critical as data and analytics are to the decisions we make every day, and as focused as we are on shopper behavior and changing demand for the products we make and sell, we want to share the value we find in connecting with business leaders, to learn from their boots-on-the-ground experiences and share best practices so that our industry continues to thrive.

Available as a [videocast](#) and as a [podcast](#), here we feature an edited version of IRI's conversation with Ram Krishnan, PepsiCo's global chief commercial officer, where he shares how his leadership style has changed due to COVID-19, as well as some of the practices PepsiCo has adopted due to the pandemic that he hopes will continue.

Ram Krishnan is global chief commercial officer for PepsiCo, a role that includes overseeing key capabilities like global R&D, marketing and insights, customer strategy, revenue management, go-to-market, e-commerce and design. Additionally, Ram works with PepsiCo's CEO to transform and scale the company's commercial data and digital capabilities.

Ram has been with PepsiCo for more than 14 years, and his experience includes leading PepsiCo's APAC region. Since early 2015, Ram has also hosted the Ramalytics blog, where he muses on diverse topics such as marketing strategies, inspiration, behavioral economics, Shenzhen, China's maker culture, AI's influence on innovation and how technology enables experiences.



The book Ram is reading: "SiSu: The Finnish Art of Courage" (Running Press Adult, 2018). "It's all about the Finnish culture and how they use guts and perseverance to overcome great obstacles."

The new technology Ram has adopted: Going from what I would consider BC (before COVID-19) to AD (after distancing), I'm intrigued by the social media tools that are bringing people together virtually. I'm a big fan of the Houseparty app. For my father-in-law's virtual celebration of a milestone birthday, it actually was better than a live event because more people could join. And there's an app that I just got called Quarantine Buddy, where you get to do activities with other people with common interests.

New behavior adopted during COVID-19: Every single day, I find at least one thing that I'm grateful for and make sure I pass that on to somebody else. And toward the end of the day, we do this exercise as a family. I'm hoping that's something that sticks with me as we get to a new normal.



LEADERSHIP

IRI: What have you learned during the COVID-19 crisis in terms of your own leadership, and what has worked well? What is something that is still a work in progress?

Ram Krishnan: I think almost all of us as individuals and leaders have grown and are learning. There are two cultural DNA elements that PepsiCo values and that we cultivate in our leaders. One is moving with empowerment, and the other is moving with decisiveness. The good news is those two things have served us well during this crisis. I reflect on my time leading the China business when the pandemic hit. You know, it takes us six months to come up with an annual operating plan, and over a period of 72 hours, we redid the annual operating plan across the entire value chain, from make, move, sell and market. And we made big changes to big things, and that resulted in exponential growth as we exited the crisis.

It's reinforced what we value at PepsiCo, and that's served us well. As I reflect on what we could do better, I think we all underestimated

the psychological impact of the pandemic on individuals. You know, this notion of how people are feeling and how they are doing day to day? In the past, we didn't talk about feelings in the workplace. That's one of the things I wish we had known intuitively as something we should be doing and not wait for a crisis. So that's something I'm hoping to learn and apply as I move along as a leader.

IRI: As one of the largest CPG manufacturers in the world, what are some of the things that PepsiCo has done to seize opportunities that were presented because of COVID-19?

RK:

PEPSICO LOOKS AT OPPORTUNITIES THROUGH THREE VECTORS. One, obviously, is through the lens of the consumer.

If you think about it, in this new norm, the consumer context is changing; consumer routines are changing. Both at-home and from-home are becoming very important. The product usage locations and how they engage with brands is changing. With that, we're looking at opportunities, such as pivoting our product portfolio and communication to leverage this opportunity. So that's through the angle of the consumer. **The second vector is through the lens of channel.** It's been striking to see how dramatically channel shifting is happening and then resettling. We anticipate a continuous period of disruption over the next six, 12 and 18 months; our focus is staying very nimble and agile to recognize these channel shifts. To give you an idea, across some markets, we've seen a \$100 billion to \$200 billion move from away-from-home channels into retail.

So how are we positioned with our supply chain and go-to-market execution to take advantage of that? Commercially, we see the value in simplification and being thoughtful about where we add complexity to unlock granular growth.

The third vector, outside of consumer and channel, is commercial capability. We already had a road map in place last year, as we talked then about how the consumer and channel landscape is going to change. We have to revisit the road map and figure out which to accelerate, which to decelerate and which we are going to create new. So that's something we're maniacally focused on as far as the commercial road map to evolve with the consumer and changing retail.





AGILITY

IRI: What risks do you see in terms of the marketplace, and what are you doing to mitigate those risks?

RK: One risk is moving slowly. You have to be very agile to take advantage of opportunities. I just talked about the fact that billions of dollars are shifting every three to six months. We are used to planning 12, 18, 24 months in advance.

NOW WE PLAN ON HORIZONS OF 30, 60 AND 90 DAYS

and being nimble, because you can't hypothesize based on what happened yesterday, you can't forecast out; that's going to be the reality for the full year.

The ways of planning, being nimble and resource allocation all go along with these decisions, because we've been very slow historically on changing resources based on what we're seeing. We need to be much more purposeful in moving resources around, be it in media dollars, promotional dollars or even with G&A [general and administrative expenses].

What's been fascinating is that the speed of decision-making has accelerated during this pandemic, because frankly, none of us have time to sit around talking about things in multiple levels and then making a decision.

As a leadership team, **WE'VE COME TOGETHER WELL, AND WE HAVE STARTED TO MOVE WITH REAL SPEED.** And now we're trying to figure out how we hang on to that speed and don't go back to the regular way. In some ways, I think we feel like our handcuffs are off on the regular processes of what a traditional CPG company has followed. **AND THE GOAL NOW IS TO TRY TO MAKE SURE IT'S INDOCTRINATED INTO OUR CULTURE AND WE DON'T LOSE THIS.**

IRI: PepsiCo has 23 billion-dollar brands globally across most dining occasions and demand spaces. What are some of the brand marketing changes and challenges you're seeing, and how are you responding, particularly without sports marketing?

RK: We had a chance to look back at previous pandemics like SARS and MERS, and I think our learning is that there are four distinct stages the consumer goes through as they go through the pandemic. Initially, there is preparation and prevention. The second is confinement and cocoonment. A third is restricted recovery. And fourth is this notion of returning to normal. I think the big thing for us is to make sure our brands are evolving with consumers as they go through these stages. We're being very purposeful in thinking through the role of our brand in each of the stages, because the last thing you want to do is create disruption in an already challenging time for our consumers. We're questioning the things we used to do pre-pandemic to determine what will work.

You mentioned sporting events, and we're big into a lot of experiential marketing and have created large presences at events like SXSW and music festivals. But now we've gone to this world of physical distancing, but virtual socialization. Now we're taking a new look at the role of our brands in this virtual world. I'll give you an idea: Early on during the pandemic in China, we pivoted the role of Gatorade and how Gatorade can actually help a consumer run an entire marathon in their own apartment. It's something we wouldn't have thought about, right? Gatorade is all about sporting events. So similarly, we're looking at how our snacks play a role in meals. We're really thinking through both our product usage and our brand communication as the consumer goes through these different stages of dealing with this crisis.

**G刻不停
宅家开练**

封闭时期，封不住运动热情
不等操场开门，不待球场营业
佳得乐是你宅家开练的最好搭档

G 每滴汗不白流

科学配比 迅速吸收



CONSUMER

IRI: PepsiCo recently launched two direct-to-consumer websites, PantryShop.com and Snacks.com. What is the goal of these websites?

RK:

First and foremost, our **RETAILERS WILL CONTINUE TO BE THE PRIMARY MANNER BY WHICH WE SERVE OUR CONSUMERS.** This is, at the end of the day, a small niche offering,

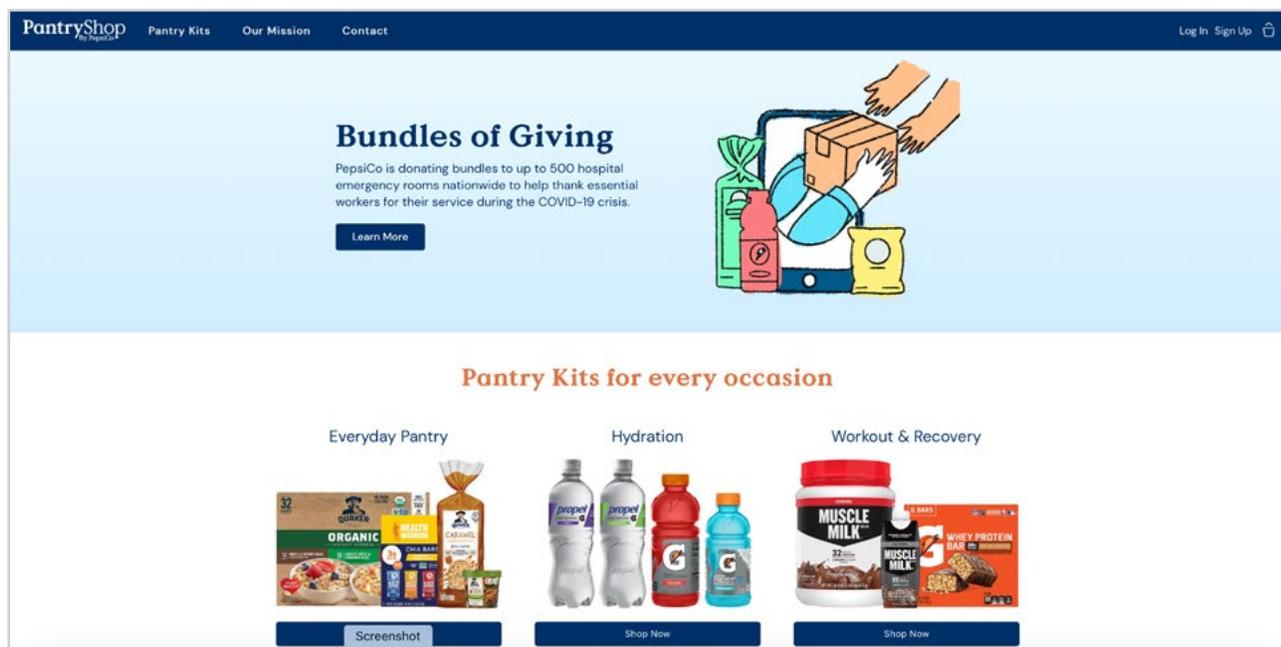
and a place to offer consumers another buying option amid unprecedented recent spikes in e-commerce demand. It was also important to provide an offering that adapted to changing circumstances like working and exercising from home.

We wanted to test the digital capabilities that we built in-house. So we gave ourselves a challenge: In 30 days, could we set up these direct-to-consumer sites using internal technology, data scientists, software engineers and marketing automation capabilities we've built, and

challenge ourselves to basically create this direct-to-consumer business? Our teams rose to the challenge and put up these two sites in a period of 30 days from operational through supply chain execution and fulfillment of the product. The goal now is to use this direct consumer connection to have a conversation about how their needs are evolving. What kind of data can be collected so that we can be more conscious of our innovation pipeline? What do we think about promotional offerings, bundling, future offerings that we would take into actual retail outlets? We're hoping this becomes a test lab.

IRI: How are retailers reacting?

RK: To retailers, we've been clear that we see this as a very small niche offering. **It's mostly to inform and educate how we can serve the retailers better.** Imagine now that I'm much more educated on what kind of assortments I could offer, what kind of multipack offerings I can bring in, and I could do this and test it, in a virtual, fast-failure mode vs. trying to put this through a complicated supply chain, which is going to be an incredible cost for both us and the retailers. For the most part, the retailers are supportive because they see this as a test and learn process, but by the way, it's a program that we're going to apply at scale in their retail context.



IRI: Your retail partners see PepsiCo as a company at the forefront of insights, offering very high value-added insights and best-in-class in-store execution, as we see in consistent high ratings in Kantar's PowerRanking. What are you doing to maintain this edge? What lessons can others take from PepsiCo?

RK:

One of our top priorities as a company, really through our entire 55-year history, has been **OPERATIONAL EXCELLENCE**, and we measure our operational excellence through two lenses. One is **PRECISION** and the second is **CLOSED-LOOP MEASUREMENT**. That is our value proposition that we bring to our retailers.

And we're thankful that our work has been recognized by our retail partners, but excellence is a never-ending pursuit. Almost every month, every quarter, every year, we invest in new technology and data tools to make sure we can execute with precision and we can close the loop on our execution. I'll give you a couple of examples of the tools that we have developed over the past couple of years. One proprietary tool that we're incredibly proud of as far as impact has been this suite of tools called PepWorx, and PepWorx sits on two different data sets; one is a consumer DNA data set and the other is store DNA, which is powered by a lot of our first-party data. And this has enabled us to create some digital products, like the Personalizer. The Personalizer is a customized tool that creates customized messaging to consumers based on what they're interested in on innovation and product promotion. Imagine that Personalizer tool coupled with one other tool, which is one of my favorites, called the Most Valuable Stores. That tool actually tells you which exact store the shopper will go into and shop for a particular product. Then we're able to work with our retail partners and curate the assortment, the merchandising and the presentation based on that information. You

create this entire loop where you create demand through personalized offerings, then you offer the assortment to the consumers as they get into their store outlet, and then you close the loop. I think that's the power of the proposition that we would like to bring to our retail partners. And that's partly why we've been successful.

IRI: You've always been a very consumer-centric leader. What are some of the tools, data and insights that you turn to?

RK: I'll start with our partnership with IRI. First, I wanted to congratulate the IRI team. We have announced publicly that we have renewed our partnership with IRI, and we're incredibly proud and excited to do that. And part of the rationale for the continued partnership is the core investments PepsiCo and IRI have made with technology, automation and data analytics. And I go back to the Unify platform. Hopefully IRI would say we were one of the first customers of the technology and at the forefront of using Unify, and that continues today; it's one of the tools I wake up to every Monday morning, looking at our performance, at least here in North America.

But we've also built some proprietary tools in-house; on the front end on the consumer insights side, we have a tool called 360 Always On. It's a social listening tool, but it does more than that. It looks at blog sites. It looks at various trending topics. And the neat thing is it's got an AI component to it, which puts a value to determine the sustainability of trending topics. Is this a boom or a splat? So that's a tool that we value. The other tool that I'm personally passionate about is a tool called Ada. Again, it does front-end insights, everything from concept testing to testing consumer messaging. As you can imagine, during this COVID-19 crisis, we have a lot of creative communication that we had to completely redo in a short period of time. And with Ada, you're able to test messaging and get an answer in a very cost-efficient way in 48 hours, so we're able to make dramatic changes to our communication plan across a lot of our brands.

IRI: You were most recently the CEO of PepsiCo's Asia Pacific Sector, including Australia, New Zealand and China. Tell us about some of the key practices, particularly in China, that you see having application here in the U.S.

RK: Let me start by telling you about my typical day when I was living in China. I'd get up in the morning and check my social media feed via WeChat. I would use the same app to do a video conference with my work colleagues. I'd use the same app to order green tea from downstairs. I would use the same app to get a cab to go to dinner. I'd use the same app to buy plane tickets for my vacation. I would use the same app to make an appointment with the doctor, pay all my utility bills and order groceries, all without leaving that one app ecosystem. Imagine having that kind of experience here in the U.S. or in the Western world. It's incredibly difficult because you've got to go through different ecosystems to do everything.

I used to tell my friends back here in the U. S., I could live my life using WeChat. I didn't need credit cards or anything else. **Consumers in Europe and in the U.S. are going to demand that seamless experience.** The question is how; how will it be delivered? I think you're going to see more and more of these app ecosystems and platforms coming together so that it's incredibly transparent to the consumer experience. I was out of the country for three years, and I remember when I was leaving the country, there was a big push toward unbundling; you didn't want to have your own cable TV. You wanted to get all this stuff on demand. But think about the amount of choices you have now. You have a plethora of choices on all this viewing. I personally think there's going to be a push toward more bundling. As that happens, more of these experiences will become more seamless. That would be my takeaway from what I saw in the East.

IRI: PepsiCo moved some of its media in-house, a trend seen among some CPG manufacturers. Retailers are also increasing the importance of their media platforms. How do you see these coexisting, and how does it influence the ability to reach consumers in a highly fragmented world?

RK: Let me start with PepsiCo and what our intention is.

Our intention is to **MOVE** what I consider **ESSENTIAL DATA AND ANALYTICS CAPABILITIES IN-HOUSE**, because in the long term, we see these capabilities as a competitive advantage for our business. Our intent is more about value creation than productivity, and it's focused around owning the relationship with the consumer to really become a faster, stronger organization.

Think about some of the things that we have insourced, like creative testing that we used to outsource. It took days to get the same answer back. For the longest time, we outsourced media ROI, and we tested ROI twice a year on a big brand, once a year on a smaller brand. And it wasn't real time at all. Now we have built those models in-house, so we can react almost in real time to the changes that we're seeing and adjust our plans at the pace of the consumer, which gives us a big competitive advantage. We're looking for places where there's high value creation involved by moving the capability in-house. We don't see a world where we're going to be insourcing all these activities, because I think there are partners that are better suited to do some things. They have better ability to hire the key talent needed for that. We're going to be very purposeful and thoughtful about it.

Every retail company is evolving toward the notion of being a media company as part of being an omnichannel player, and we welcome that. If there's a better return on investment for us investing a single dollar in a retailer media, which leads to a transaction, we're fully supportive of it. I think there our only push would be to make sure the ROI is robust. We can validate that, so the dollar we spend on any other above-the-line media is equal to the

dollar we're spending on a retail media channel. A lot of our partners are doing that. They're opening up some of their data so that we can track transactions, and we're excited about the journey ahead.

IRI: PepsiCo has reduced some of its assortment and SKUs. If there are too few choices, you could risk your point of differentiation. What is the right balance of reducing stock vs. innovation, providing the right choices and differentiation vs. your competition?

RK: That's the million-dollar question! During the COVID-19 crisis, our focus was on maximizing throughput of our core SKUs.

WE WANT TO MAKE SURE CONSUMERS CAN FIND OUR BIG BRANDS. And we worked with our retail partners to drive operational efficiency.

But now you fast-forward four months into the crisis here in the U.S., and **95% of our items that were paused are back on shelves, because they were incremental to start with** and they were bringing in new consumers. It also has given us a time window to go back and determine if these SKUs are incremental for both us and the retailer. If not, why are we doing it? That's been a good moment of reflection. And this is what I talked about previously, really thinking through where we should add complexity and why.

Now a lot of our innovation is going to have a higher hurdle before it gets into the market. So those are the things that we're adjusting in terms of incrementality: How big is this innovation? Is it meaningful? What is its role? Is it going to grow category penetration? These are fundamental questions that we've gone away from as we've gotten bigger. And now we're going back to some of these fundamentals and questioning them.

IRI: What are some of the best practices you have seen for stimulating impulse purchases in an online world?

RK:

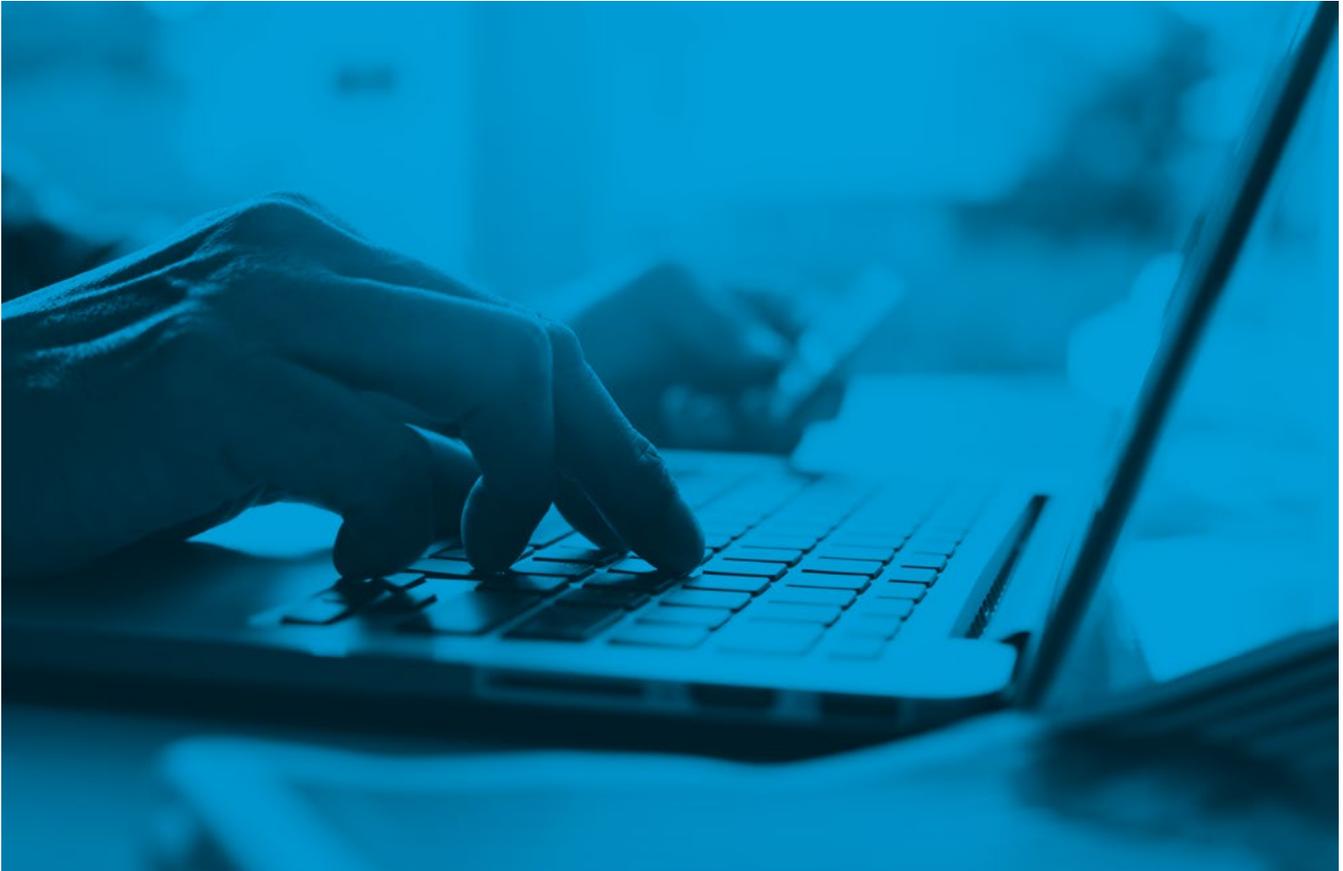
As you can imagine, **THROUGH THIS PANDEMIC, E-COMMERCE HAS BEEN ONE OF THE FASTEST-GROWING CHANNELS** in almost every single geography.

In fact, I'll give you a stat that I was reading. There will be 2.3 billion digital buyers this year, and that's 7% year-over-year growth, bringing in almost 150 million new consumers coming online, developing new habits. The good news is that

WE HAVE BUILT DIFFERENTIATED CAPABILITIES because we invested ahead of the curve in this particular channel. **WE'VE DONE QUITE A BIT ON MARKETING AUTOMATION**, and fulfillment through direct ship and an automated intelligence platform.

Specific on impulse, there are four things we're doing. One, we're looking at how we use interactive and adaptive technologies to engage the consumer. And that's something that we've been very successful with in China, and we're doing it more in the U.S. Two is how we will drive flexible cross-category purchase, because we no longer have the restriction of physical aisles having to be adjusted. Third is that we've been very successful at occasion-based virtual bundling. I know it's something we couldn't do in the physical world, but now you can in the e-commerce world. And fourth, there's a completely new consumer purchase journey going on. You think about here in the U.S. with e-commerce, a lot of it is click and collect. You think about your path to the store, the geolocation, the geo-targeting and how the brands could play a role when you get to the

delivery point. The last neat thing is the ability to do personalized offerings and activation based on your individual purchase history, which opens up unlimited potential that we haven't tapped into before. We're very optimistic about the role of impulse and how it could play in the e-comm world. And we're working with our retail partners to bring some of these technologies and techniques to their omnichannel landscape. 



Let's continue the conversation. We invite C-Suite leaders to share their perspectives on the changing CPG retail demand curve in an upcoming episode of Growth Insights. Please contact your IRI representative or [email us](#).

About IRI

IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC health care, retailers and media companies to grow. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI guides over 5,000 clients globally in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver growth. IRIworldwide.com

Corporate Headquarters: 150 North Clinton St.,
Chicago, IL 60661, USA, +1 312.726.1221

