SOLEMN DECLARATION – INDIVIDUAL ASSIGNMENT

Solemn declaration by the student

Module: **Strategic Management**
Module Code: **MBAC 811**
Assignment No.: **1**
Assignment due date: **07 March 2021**

I **Enoch Steve Mashabane** declare herewith that the assignment which I herewith submit to the North-West University as partial completion of the requirements set for the MBA degree, is my own work.

Signature of student **Enoch Steve Mashabane** Student Number **29530105**

Signed at **Kempton Park** this **07th** day of **March** 20**21**

QUESTION 1

(1) D
(2) D
(3) B
(4) D
(5) D
(6) E
(7) B
(8) D
(9) B
(10) B

QUESTION 2

2.1

(a) PepsiCo's corporate strategy is sustaining its performance and dominating markets they participate in, through; (i) product innovation, (ii) close relationship with distribution allies, (iii) international expansion and strategic acquisitions.

(b) (i) Market analysis – the organisation conducts a thorough market analysis to gain an understanding of consumer taste preferences.

(ii) Market growth/dominance – in each market they participate in, they either dominate or are the second largest player and work towards growth to dominate the market.

(iii) Product innovation – in developing products, they incorporate health and wellness of consumers and combination of products to offer consumers complementary packages for convenience.

(iv) Value chain alignment – the organisation through its divisions co-ordinate its value chain globally to share best practices between its divisions. This attribute helps the business explore new opportunities for skills transfer and brand sharing across all its business units.

2.2 Overall, PepsiCo has great long-term attractiveness, particularly because of the mix in its portfolio of businesses.

Industry Attractiveness Assessment										
Attractiveness Variables	**Weight**	**Salty Snacks**		**Carbonated Beverages**		**Non-carbonated Beverages**		**Cereals**	
Market size and Growth	0.25	9	2.25	8	2.00	6	1.50	9	2.25
Industry Profitability	0.15	8	1.20	8	1.20	7	1.05	8	1.20
Intensity of Competition	0.15	6	0.90	9	1.35	5	0.75	5	0.75
Opportunities and Threats	0.15	7	1.05	8	1.20	8	1.20	6	0.90
Resource Requirements	0.05	8	0.40	7	0.35	8	0.40	7	0.35
Product Innovation	0.20	9	1.80	6	1.20	8	1.60	8	1.60
Social Political Environmental Factors	0.05	5	0.25	6	0.30	8	0.40	7	0.35
Total	**1.00**		**7.85**		**7.60**		**6.90**		**7.40**

Industry	**Attractiveness Description**
1. Salty Snacks	- Product innovation focusing on convenience, growing awareness of nutritional content and indulgent snacking - Market leader in the United States, leading the market a with 36.6% market share.
2. Carbonated Beverages	- Market leader with a 24% market share in the liquids refreshments in the United States. Second largest seller of carbonated drinks globally at 29% market share
3. Non-carbonated Beverages	- Leading product innovation, with healthy considerations and offerings in the markets they operate.
4. Cereals	- Strong focus product innovation on nutritional benefits, with the Best For You (BFY) and Good For You (GFY) initiatives driving profits up - Quaker Oats and Rice-A-Roni market leaders in their segments

2.3

(a) PepsiCo's portfolio does exhibit good strategic fit. PepsiCo's strategy is acquisitions and consolidation of businesses which exhibit common characteristics.

(b) All of PepsiCo's procurement activities are co-ordinated globally to leverage economies of scale and share its best practices to standardise best practices across its different divisions. They combine their plants, distribution systems and service routes globally.

2.4 Financial Ratio Analysis

PepsiCo Consolidated Financial Ratios	2013	2012	2011
Liquidity Ratios			
Current Ratio	1.24	1.10	N/A
Acid Test Ratio	1.05	0.89	N/A
Debt to Equity	2.18	2.33	N/A
Profitability Ratios			
Operating Profit Margin (%)	52.96	52.22	52.49
Net Profit Margin (%)	10.22	9.49	9.72
Return on Equity (ROE) (%)	27.83	27.74	N/A
Efficiency Ratios			
Inventory Turnover Rate (times)	8.94	N/A	N/A
Debtors Collection Period (days)	38.46	N/A	N/A
Creditors Payment Period (days)	91.54	N/A	N/A

(a) Yes, PepsiCo's portfolio does exhibit good resource fit. PepsiCo exhibit the following resource fit:

- heavy reliance on debt financing than equity, which means the business may not be able to generate enough cash to finance its debt obligations. However, the business might have taken a decision to use debt financing for acquisitions than equity.
- has the ability to pay off its short term financial obligations, however, below the industry norm of 2:1.
- ROE higher than the industry norm of 18%.
- an improved profit margin from good sales revenue from its product mix, further strengthening its financial ability to continue to re-invest in product innovation and acquire new businesses.

(b)

Net cash provided by PepsiCo's operating activities, 2011-2013 (USD mn)			
	2013	**2012**	**2011**
Net Cash provided by Operating Activities	9688	8479	8944
Capital Spending	(2795)	(2714)	(3339)
Sales of Property, Plant and Equipment	109	95	84
Free Cash Flow	7002	5860	5689

PepsiCo has an excellent free cash flow, which has improved from 2011 to 2013. The position allows the business to continue with its strategic approach of acquisitions and diversification, capital expenditure and pay shareholder dividends.

From PepsiCo's financial data, Frito-Lay North America division has been a stable source of free cash flow generation, consistently contributing more than 30% of operating profit between 2011 and 2013 with minimal capital expenditure. While the Europe and AMEA divisions had significantly high capital expenditure with low operating profit contribution in the same period.

2.5 The recommendation to the board of directors is that; PepsiCo continues with strategic growth; (i) acquisitions, (ii) product innovations, (iii) synergies in distribution channels and (iv) international expansions.

(i) The business has an aggressive strategic approach in terms of acquisitions. They need to continue with the approach and acquire businesses which can be a strategic fit to PepsiCo's value chain.

(ii) PepsiCo need to continue their strong focus on product innovation. This leg of the strategy has assisted the business develop innovative products which are responsive to consumers' taste and made the business distinguished leaders in the market.

(iii) PepsiCo's need to continue with its value chain alignment which has afforded the business to standardise its distribution channels and create synergies across its businesses in different locations.

(iv) The current strong hold of PepsiCo is the North America. The business can increase its international presence by leveraging its aggressive acquisition strategic approach, through acquisitions of businesses which are a good fit for its portfolio and be market leaders in those countries.