

PepsiCo: Finding the Right Mix of Value and Demand Investment

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A demand question before the next planning cycle

PepsiCo's Frito-Lay North America (FLNA) business entered its next planning cycle with a difficult combination of signals. In the third quarter, convenient-food volume declined, organic revenue was lower, and segment operating profit fell more sharply. Effective net pricing remained positive. The public results did not reveal whether shoppers were trading down, buying less often, switching brands, responding to competitors, or reacting to some combination of category and execution factors.

For the next planning cycle, PepsiCo's commercial leaders must decide how to direct incremental FLNA commercial resources. Should more weight go to targeted affordability and pack-price choices, or should it go to brand support, product innovation, and demand creation? The alternatives are a teaching decision: public information does not disclose a specific proposed FLNA budget or an internal allocation under consideration.

The quarter's signals

PepsiCo reported third-quarter results for the 12 weeks ended September 7, 2024. FLNA net revenue was \$5.888 billion, compared with \$5.954 billion a year earlier. That is about 1.1% lower, calculated from the rounded amounts in the release. The company's organic-revenue reconciliation showed FLNA organic revenue down 1%, with a negative 1% organic-volume impact and effective net pricing of positive 0.5%.

The release's summary performance table reported convenient-food volume down 1.5% and segment operating profit down 9%. These measures have different definitions and scopes. The company notes that its summary-table volume measure can differ from the organic-volume impact because of product mix, joint-venture volume, and other factors. Students should preserve each label and should not treat the measures as interchangeable.

Management described North American category trends as subdued and said it had made incremental investment to improve marketplace competitiveness. It also indicated that commercial activity and brand support would continue for year-end demand. These are management's explanations and plans; the public results do not isolate the causes of FLNA's volume or profit changes or establish the return on any investment.

The broader company context offered little room for a simplistic answer. PepsiCo lowered its 2024 organic-revenue outlook from approximately 4% growth to low-single-digit growth, while

maintaining its expectation of at least 8% growth in core constant-currency EPS. The latter is a company-defined non-GAAP measure. Neither outlook is a realized result, nor does it reveal how much FLNA can spend or where.

Quaker Foods North America reported a much steeper revenue decline, which the company said was affected by its previously announced voluntary recall. The recall belongs to QFNA and should not be used to explain FLNA's performance.

Two paths, several possible mechanisms

Targeted affordability and pack-price architecture

One path would focus on selected price points, pack sizes, promotions, or retailer programs. A more accessible entry price might encourage trial, maintain purchase frequency, or reduce switching. But those are hypotheses. A promotion may shift purchases across weeks, change pack mix, move shoppers among brands, or require manufacturer funding without creating new category demand. Retailer pass-through and the effect on PepsiCo's net realization would matter.

Academic research underscores why an aggregate elasticity cannot settle this choice. A meta-analysis of 1,851 price-elasticity estimates across 81 studies reported a mean of -2.62 , but results varied by outcome definition, unit of analysis, time horizon, and treatment of price endogeneity. It is not an estimate for FLNA or any specific price or pack action.

Brand support, innovation, and demand creation

A second path would emphasize brand communication, product innovation, or renovation. This could strengthen differentiation or support demand over time, but public information at the cutoff does not report FLNA brand-level returns, innovation success rates, or experimentally measured lift.

A meta-analysis of historical brand-advertising studies found average short-run advertising elasticity of $.12$ (median $.05$) and average long-run elasticity of $.24$ (median $.10$). Its underlying studies span products, periods, markets, and methods; they do not predict the return of a PepsiCo campaign. Advertising elasticity also is not profit return. Product innovation is a separate intervention for which these figures provide no direct estimate.

What the public evidence leaves open

The available company disclosures are aggregated. They do not provide FLNA volume, price, promotion, or contribution by SKU, pack, retailer, channel, household cohort, geography, or competitor. They also do not show retailer pass-through, consumer affordability perceptions, campaign-level return, or the incremental economics of new products. As a result, the same quarter can support competing explanations: affordability pressure, category softness, competitor activity, changes in mix, availability, channel timing, or several influences together.

The team can frame either path as a bounded test. A price-pack test could compare selected offers and regular-price alternatives across comparable retailer or market settings. A brand or innovation test could set explicit measures for trial, repeat, distribution, and incremental contribution. In either case, shipments should be distinguished from retail sell-through; temporary lift from durable demand; and gross consumer response from the manufacturer's net economics. The public record does not supply the inputs needed to forecast a result.

Assignment

You are advising PepsiCo's FLNA leadership on the next planning cycle as of October 8, 2024, 6:15 a.m. EDT. Recommend how to allocate hypothetical incremental commercial resources between targeted affordability/pack-price support and brand support/innovation. You may recommend a sequence or a defined mix, but explain what would be funded first and what would be deferred.

Address the following:

1. What do the Q3 volume, organic revenue, net-pricing, and operating-profit signals establish-and what do they not establish?
2. Which consumer, category, retailer, competitive, or operating explanations should the team investigate before scaling either path?
3. What evidence and comparison would you require to evaluate each investment? Specify relevant measures, a review horizon, and conditions to expand, change, or stop.
4. How would you account for retailer pass-through, manufacturer net realization, mix, costs, cannibalization, and possible purchase timing?
5. What evidence would cause you to change your recommendation?

State assumptions clearly. Treat the budget and alternatives as hypothetical, distinguish company-reported facts from management explanations, and do not apply pooled academic coefficients as PepsiCo forecasts. Financial modeling is outside the assignment.

Selected sources

- [PepsiCo Q3 2024 results release, October 8, 2024](#)
- [PepsiCo Q3 2024 Form 10-Q](#) (filed the prior evening; included in the information set)
- [PepsiCo 2023 Form 10-K](#)
- Research basis and detailed locators: literature review, source register, and evidence extraction.

The release was public by 6:09:14 a.m. EDT according to contemporaneous reporting, used only to corroborate availability. PepsiCo had scheduled prepared remarks for approximately 6:30 a.m. and live analyst Q&A for 8:15 a.m.; both, along with any transcript, are outside this case's information set. No subsequent result or outcome is included.