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Full article translation

“Local Innovation from Head to Toe”

---- Interview with Tim Minges, Chairman of PepsiCo Greater China Region (GCR)

When being appointed Chairman of the GCR business of one of the world’s top food and beverage companies, Tim Minges understood that balance and diversity would be the key factors for PepsiCo to thrive in the Chinese market. He told his team to pool their wisdom together, develop a diverse range of locally competitive products, and, at the same time, share the best R&D resources in PepsiCo’s global network to achieve balanced development in all business categories. “This is a market with boundless opportunities, which may be missed easily if one acts too cautiously. Therefore, we need to maintain both flexibility and agility.”

As evidenced by the market popularity of Tropicana Xian Guo Li (Pulp Sacs), Quaker Congee, and Lay’s Rice Chips and Wheat Chips, PepsiCo’s commercial eco-system for local innovation is taking firmer shape. This is a network of collaboration: market analysts use internet or home visits to measure consumer demands, the R&D center and test workshop in Shanghai convert conceptual ideas into physical products with the fastest speed, and PepsiCo teams for supply chain and engineering, taste designing and brand building work in partnership for innovation and shared responsibilities to add new PepsiCo offerings for consumers around the world. Tim said, “With new products made for China, created in China and distributed beyond China, local innovation has reshaped PepsiCo’s innovation process in other countries.”

In this interview, Tim Minges told our editor Wang Yiding how PepsiCo had tried and succeeded in building stronger competitiveness, and explained the way PepsiCo’s local innovation process functions. As the most senior executive of PepsiCo China, Tim was personally involved in the entire process, and played a multiple role of consultant, defender of principle and facilitator for actions. Everything PepsiCo did was for the purpose of meeting “Performance with Purpose” – achieving sustainable production, generating industry-leading profits, and creating an employee-friendly environment. The following is an excerpt of the interview:

Q: Now it seems that everyone is asking who can beat PepsiCo?

A: China is a very big market, and no multinational corporation can safely claim that they face no competitor in China. This is a market of critical importance, so PepsiCo pays more attention to long-term and sustainable growth. This will be a highly competitive and challenging process. But I want to stress that PepsiCo is very different from other companies in the industry. We are not just a beverage company, but a company with a mixture of food and beverage businesses. This is where our competitive edge lies in China. In our views, the key to success in China is to develop a diverse range of products and offer consumers more choices. In a culinary culture

shaped in the course of a long history, the Chinese people prefer repertoire with multi foods on their table. We hope to provide our consumers with this liberty to pick their favorite cola, water, coffee, oat and chip products from a wide range of choices.

Q: What is your strategy in terms of the diversity of product offerings? Is it based on the sustained investment in one product or one brand, or a balanced input across product lines?

A: When we came to China 30 years ago, we paid great attention to building new brands and launched Pepsi Cola, 7Up and Mirinda in the Chinese market. However, in the past ten years, we initiated a change to our brand strategy. Lay's, a flagship PepsiCo brand with billion-dollar retail sales, is our proudest success. We provide Lay's potato chips for consumers around the world, yet in China, we also make Rice Chips and Wheat Chips under the Lay's brand. The Chinese consumers are now increasingly concerned about food safety and only buying products they trust. Given the popularity and recognition of Lay's as a brand representing high-quality in China, it is a rational choice for PepsiCo to develop rice and wheat products under the Lay's brand. If we choose to create a new brand, it may take five or even ten years to build its reputation in the market. This sets China in contrast to the United States, where we may use three different brand names for three different products, including those made of rice and wheat.

Q: In the past two years, PepsiCo has apparently quickened the pace of the launch of new products. How did you manage to do that?

A: About five or six years ago, we opened a global R&D lab in Shanghai, which allowed our local engineers to materialize their conceptual ideas at a much faster pace. For example, many local flavors have been added to the Lay's chips family. The chips developed in New York tended to focus more on salty and BBQ flavors, yet now we have chips with new flavors like cucumber, spice and seafood. These flavors, which will never come from our R&D centers in Texas and Dallas, can only be developed in China. As we can see now, these locally developed products are very popular in China.

In addition, we are also building a new R&D center and pilot plant in Shanghai, which will be PepsiCo's largest test facility outside North America. Unlike in traditional R&D centers, where a design proposal is produced after a lengthy discussion and then taken to the workshop for production, the new facility in Shanghai allows the engineers to see how their ideas for beverages, chips or even Quaker oats work on real products simply by bringing their proposals to the pilot plant downstairs. I made a joke to our staff in the R&D team about a possible scenario: they wake up in the morning with a new idea, and walk downstairs to put the idea to a test in the pilot plant, where they will get a product sample in the midday or the afternoon, and then pack it up for sell in the evening.

A concept turns into reality just within one day. This is the power of the R&D center

and pilot plant. Before the center was built, the entire R&D and manufacturing process will take up to six weeks. Whenever they have a new idea, the Chinese engineers will have to convey that idea to the pilot plant in North America. After repeated explanation and clarification, a product sample will be produced in the pilot plant and sent back to China for further test. This back-and-forth communication has greatly prolonged the R&D process.

Q: Will this accelerated product cycle create a big challenge for your colleagues in other departments?

A: This is really about people. PepsiCo prides itself for being able to attract and retain the best talents. They like the pace of work and the energetic culture in PepsiCo, and they share the passion of growth with the company. China is quickly rising and creating an economic miracle never seen in the world's history, especially in communication, transport and consumer goods. To keep up with these changes, a company needs to adopt a business model that is flexible and agile.

Q: As a consumer brand for young people, what experience have you learned in communicating with young consumers?

A: PepsiCo has always pursued the youth spirit. For the past 20 or 30 years, PepsiCo brand has been shaped by the passion of youth, which makes us different from Coca-Cola. The themes of our brand promotion campaigns - "Ask for More", "Activating Your Thirst" - are both about youth. Two weeks ago, we launched a new promotion campaign, "Refresh Your World", which captured a giant dragon made of modern 3D technology jumping out of a five-meter-wide screen on the Great Wall. By activating this new campaign, we hope to encourage the younger generation to push their potential to the limit and make a world of difference.

Q: "Lay's Rice Chips" is a new PepsiCo product, so what changes have you made to the supply chain?

A: Unlike Lay's chips, whose material supplies are sourced from PepsiCo's own potato farms, we don't grow rice in China. Since China is the world's largest rice producer both in aggregate and per unit terms, PepsiCo buys rice directly from the market. Potato is a different story. China's per unit potato output is about 15 tons per hectare, yet the world's average is about 20 tons, and in some places, potato yield may even reach 30 tons per hectare. Therefore, by opening potato farms in China, PepsiCo is helping local farmers increase per unit potato output.

Q: This year, we have seen a major price hike in raw materials, so how have you managed to keep profitability?

Q: This is where the advantage of multinational corporation lies. As the second largest food and beverage company in the world, PepsiCo has adopted the best practices and productivity boosting measures in more than 170 countries to offset the impact of inflation. Inflation is not scary, but we still need to improve labor

productivity. The measures PepsiCo adopted include: improving packaging material to reduce land occupation, using lighter bottles, reducing water consumption, etc. In recent years, we have been working tirelessly to reduce the use of plastics, and introduced a few modifications to bottle designs to mitigate production cost and environment impact without sacrificing consumer experience.

Q: “Tropicana Xian Guo Li” is an innovation made by your R&D team in China, so how are you going to promote this product in the global markets?

A: “Tropicana Xian Guo Li” is a star product and a pride of the Chinese team. It is a 100% made-by-China product, with local Chinese orange pulp sacs as its core material. It is an innovation made by our R&D team in China from head to toe. We have already placed this product in other markets like the Philippines and Malaysia, and planned to bring it to markets in Middle East and Africa in the future. We will continue to keep an eye on this product to facilitate its market growth.

Q: What have the Chinese team benefited from the development and operation of this product?

A: This is the first product developed entirely by the Chinese team. It is important to heed the voices of local communities and create added value for local consumers. Through our market survey, we found that our consumers prefer beverages that offer taste similar to real fruits. Therefore, the pulps in “Tropicana Xian Guo Li” are extracted directly from fresh fruits and taste very like real fruits.

In this process, our local teams from supply chain and engineering, taste designing and brand building have forged a close partnership of cooperation and shared responsibilities. It is their innovative spirit that changed PepsiCo’s traditional products, added a new choice to PepsiCo’s global family, and enabled the distribution of the new product in other PepsiCo markets around the world. In other words, with new products developed for China, made and sold in China and distributed to other markets, local innovation has reshaped PepsiCo’s business process in China.

Q: Has product modification based on consumer studies become part of PepsiCo’s competitiveness?

A: PepsiCo makes reference to the research results of both its own consumer study teams and partner agencies. Our senior executives also visit local families on a regular basis to observe how they use our products and find solutions for improvement. Quaker congee is a classic example. Congee is a very popular food in China, but after talking with Chinese mothers, we found that since they have little time preparing breakfast in the morning, cooking congee becomes particularly time-consuming. To solve this dilemma, we launched Quaker congee, which is both good for health and easy to cook. Chips are another example. We found that Chinese consumers hate getting their hands dirty when eating, so we put a vessel-shaped plastic container in canned chips, so that consumers can pick the chips with their finger tips without dirtying their hands. These innovations, which are based on local

market surveys, are the key factors shaping PepsiCo's growth in the Chinese market

Q: Unlike its competitors, PepsiCo has a more diffused pattern of partnership for its beverage business in China. Will that affect your competitiveness?

A: We are very satisfied with the current structure of cooperation. The Chinese market is fragmented, and each province has its unique features and different local preferences for taste. Therefore, we need local partners, local connections and knowledge of local situations. The current model allows us to better understand local conditions and maintain good relations with local communities. After all, food and beverage are both industries with distinct geographic features.

Q: Last year, PepsiCo announced a plan to increase investment in China by US\$ 2.5 billion. How will this investment serve your commitment to Performance with Purpose?

A: The priorities of our investment include the R&D center and pilot plant that I mentioned just now. In the meantime, money will be spent on enhancing PepsiCo's production capacity and, in particular, building new factories in central and western China. Apart from that, we will also step up investment in two other areas. First, we will make greater efforts to upgrade our factories according to LEED standards so that they will use less water and electricity and produce less waste. Second, we will invest in sustainable agriculture and provide technologies and training to help our agricultural partners increase output. These investments, which are future-oriented and sustainability-driven, represent an effective means towards Performance with Purpose. The initial cost of investment may seem a bit high, but, guided by a correct approach to investment, we will have the cost recovered in full in no more than five to eight years.

In the past five years, we have reduced water consumption in our food and beverage business by 40% in China, with improvement being made on a yearly basis. In terms of water efficiency, our beverage plants in China are among the best performers in PepsiCo's global production network.

Sidebar 1

My view of a healthy lifestyle

I have worked in PepsiCo for 28 years, and I surely face great pressure from work. However, my love for PepsiCo culture and brand makes it much easier to free myself from stress. My attitude to work is consistent with the Chinese saying: "do what you do, love what you do". I like jogging in my spare time. This is a sport that gives me some time to spend on my own quietly. When I'm on a business trip, I jog in the gym; when I'm at my home in Shanghai, I jog in the Bund. If I have more time, I like jogging in the mountains in Hangzhou, which is a truly enjoyable experience.

The traditional Chinese concept of "culinary balance" is very important. There is no good or bad food, only a bad way of eating. Chinese restaurants are different from

American ones. While the Americans only order one main course for their meal, with very little varieties, the Chinese like to dine in a group, which allows them to taste 20 different dishes in one meal. This is the best way of eating that creates both diversity and balance. For a busy professional manager like me, it's really difficult to control what to eat for lunch or whether there's time for lunch at all. Therefore, I pay more attention to breakfast and dinner, and I feel lucky to have the company of tasty Lay's foods and Pepsi beverages.

Sidebar 2

About PepsiCo

Sales revenue: US\$ 57.8 billion (2010-2011 fiscal year) Ranking in Fortune 500 companies: 137

PepsiCo offers the world's largest portfolio of billion-dollar food and beverage brands, including 19 different product lines that generate more than \$1 billion in annual retail sales each. Its main businesses -- Quaker, Tropicana, Gatorade, Frito-Lay, and Pepsi Cola -- also make hundreds of other enjoyable and wholesome foods and beverages that are respected household names throughout the world. PepsiCo's people are united by our unique commitment to sustainable growth by investing in a healthier future for people and our planet to find innovative ways to minimize our impact on the environment, including by conserving energy and water usage, and reducing packaging volume; to provide a great workplace for our associates; and to respect, support, and invest in the local communities where we operate. For more information, please visit www.pepsico.com.