



Brands in Focus and Outlook
March 2023



Pepsi

3

Nestlé

5

Mars

7

Mondelēz

9

Within the existing brand portfolio, while select brands or product categories experienced a general decline, others faced competitive pressure. Strategically, there is a shift underway towards low-calorie product offerings.

Business Divisions and Revenue Growth in 2022 (YoY)

1	Frito-Lay North America (FLNA)	↑	XX
2	Quaker Foods North America (QFNA)	↑	XX
3	PepsiCo Beverages North America (PBNA)	↑	XX
4	Latin America (LatAm)	↑	12%
5	Europe	↓	XX
6	Africa, Middle East, and South Asia (AMESA)	↑	XX
7	Asia Pacific, Australia and New Zealand, and China Region (APAC)	↑	XX

Brands / Product Categories in Focus

Frito-Lay North America (FLNA).....

In Frito-Lay North America, the company experienced a XX% YoY unit volume decline mainly due to XXXXXXXXXX products and a low-single-digit decline in variety packs.

Quaker Foods North America (QFNA).....

There was a 3% YoY unit volume decline in its Quaker Foods North America, primarily reflecting mid-single-digit declines in oatmeal and ready-to-eat cereals and a high-single-digit decline in pancake syrups and mixes.

PepsiCo Beverages North America (PBNA).....

The company experienced a 1% decrease in Carbonated Soft Drinks (CSD) volume and a double-digit decline in the energy portfolio.

European business.....

Operating profit in Europe dropped by XX% in Q4 (outside the US). The group blamed XX percentage points of the decline on impairment costs relating to its SodaStream business.

Competition and consumer preference.....

- The company discontinued Sierra Mist and replaced it with a new lemon soda brand, Starry. It launched the product to compete with Coca-Cola's Sprite and attract Gen Z customers.
- The company has been shifting from sugary drinks toward lower-calorie offerings such as diet soda, flavored seltzer, and bottled water. In 2021, it sold Tropicana, Naked, and other North American juice brands.

Source: Just Food Magazine, PepsiCo Annual and Quarterly Reports.

Emerging growth opportunities lie in energy drinks, low-calorie alcoholic beverages. No-sugar brands are likely to find a greater emphasis in planned investments.

Focusing on growth opportunities outside of its core soda business.....

- Alcoholic beverages: Launched Hard Mountain Dew, the alcohol-based version of Mountain Dew, in partnership with Boston Beer (SAM). The XX% alcoholic drink was initially available in Tennessee, Florida, and Iowa.
- Ready-to-drink (RTD): PepsiCo planned to enter the ready-to-drink (RTD) alcohol space with a hard iced tea, launching early to mid-2023. PepsiCo's tea brand, Lipton, announced the partnership with brewer FIFCO USA to produce Lipton Hard Iced Tea.
- Energy drinks: To tap into the growing energy drink market, PepsiCo made a \$XX million investment in Celsius Holdings, maker of Celsius Energy drinks. Also, to capture a larger share in an energy drink market dominated by Red Bull and Monster, PepsiCo acquired Rockstar Energy in 2020.
- Sports nutrition category: PepsiCo is expanding its presence in the sports nutrition category XXXXXXXX. For example, in Sept. 2022, XXXXX launched the energy drink brand XXXX to target athletes.
- Zero-sugar category: PepsiCo is focusing on strengthening its offerings in the zero-sugar category. The company is expanding its zero-sugar offerings across popular brands like Pepsi, Mountain Dew, and Gatorade. It is also refreshing its product lineup of ready-to-drink teas, sparkling and enhanced waters, and energy drinks to offer customers more product choices.

Investing in consumer-centric innovations in the Frito-Lay segment.....

- In addition to improving package offerings, launching new products, and introducing new flavor combinations and texture profiles, the company has maintained its commitment to consumer-centric innovations.
- Frito-Lay modified its packaging and launched smaller versions of its popular products to drive consumption and profit margins. For example, in November 2022, PepsiCo introduced bite-sized versions of its classic Doritos, Cheetos, and SunChips snacks.
- Introducing new types of snacks into its popular brands is part of Frito-Lay's strategy to bolster its snacks offering. For example, Frito-Lay recently introduced pretzels, crackers, and meat snacks to expand into new snacking categories.

Portfolio transformation.....

- Given the stiff market competition, portfolio transformation has been a critical focus for the company. In beverages, the company is putting zero sugar at the center of the portfolio transformation and investing disproportionately. Gatorade, Mountain Dew, and Pepsi are some examples, with other innovations in non-sugar brands like Lifewtr, Propel, and Bubly also driving positive growth for the category.

Goal to advance food security for XX million people by 2030.....

- The company aims to help XX million people gain ready access to nutritious foods by 2030 through its Food for Good food security program and the expansion of PepsiCo's affordable nutrition offerings as part of its PepsiCo Positive (pep+) journey.

Pricing pressure impacted the sales of some of the products / brands. A steady brand portfolio rationalization has ensured that the overall performance is within targeted range,

Product Category and Revenue Growth in 2022 (YoY)

1	Powdered and liquid beverages	↑	XX
2	Water	↓	XX
3	Milk products and Ice cream	↑	XX
4	Nutrition and Health Science	↑	5
5	Prepared dishes and cooking aids	↑	XX
6	Confectionery	↑	XX
7	Petcare	↑	XX

Brands / Product Categories in Focus

Prepared dishes and cooking aids reported the lowest growth.....

The company's prepared dishes and cooking aids product segment posted low single-digit growth in 2022, following a high comparison base in 2021, with continued strong demand for Maggi.

Underperforming or slow-growing brands were hived off in recent years.....

- In 2021, the company hived off the slow-growing water business (brand Nestle Waters).
- In 2019, the US ice cream business (including brands such as XXXXX, XXXX,XXXX) was sold off.

Pricing pressure impacted the sale of key brands

- Pricing pressure impacted the sale of key brands in focus, such as XXXXXXXX.

Brand recall and discontinuation.....

- In November 2022, Nestlé USA initiated a voluntary recall of a limited quantity of Edible Chocolate Chip Cookie Dough tubs from NESTLÉ® TOLL HOUSE® due to the potential presence of the soft plastic film.
- Recently, the company announced to wind down its frozen meals and pizza business in Canada.

The thrust is on wellness and nutrition segments among strategic growth priorities. The company is expected to continue rationalizing brands further ahead.

Re-allocating resources via SKU reduction and portfolio optimization.....

- Re-allocating resources via SKU reduction and portfolio optimization for certain brands, including select dairy SKUs. The company has indicated that further brand rationalization is on the cards for efficiency.

Wellness, nutrition, and plant-based themes to drive product innovation.....

- Nestlé is launching several new wellness, health, and nutrition products in response to the growing demand for immunity-boosting food and plant-based alternatives.
 - ✓ With the launch of natural bliss Oat Milk in the alternative dairy space, natural bliss will expand beyond its territory as a creamer.
 - ✓ In response to the growing demand for plant-based and alternative protein optionsxxxx xxxxx xxxx xxx xxxx xxx . The company has increased its focus on its plant-based brand Sweet Earth.
 - ✓ Nestlé's plant-based food and beverage offerings will remain an "extremely important" part of the business despite a slowdown in growth for the broader category. In line with the growing demand, the company has expanded the plant-based brand, Sweet Earth, into new categories like chicken, beef, and deli meats.
 - ✓ Nestlé's R&D experts are also exploring the next generation of plant-based ingredients, including fava, while considering different functional, nutritional, and sustainability aspects.

Digitally enhanced operations.....

- Deployment of advanced operational planning technology across its value chain, from demand sensing to production schedules. The company has successfully implemented these core capabilities in the US and is accelerating to reach XX% of its business by 2025.
- With Nestlé's e-commerce efforts, Nestlé continues to make significant progress in creating value through consumer analytics using data-driven transformation capabilities. As reported in the company's recently published annual review, e-commerce sales grew by XX% last year, accounting for XX% of total sales. The company reports it is on track to achieve XX% by 2025.

A focus on the portable meal segment.....

- As consumers increasingly value convenience and portability, the company is establishing a presence in the fast-growing \$XX million portable meal segment, where food doesn't need an oven or microwave to prepare.
- Nestlé shared IRI data showing that the thaw-and-eat category is expanding rapidly at a XX% compound annual growth rate.

The focus is to improve the legacy gum business acquired several years ago. The legal action against select brands is a potential risk for the company.

Segments		Brands / Product Categories in Focus
1	Mars Petcare	<p>Mars Petcare is a segment of ~50 brands, made up of about XXXX Associates in more than XX countries who serve the nutrition and health needs of dogs, cats, horses, fish, and birds.</p>
2	Mars Wrigley	<p>Mars Wrigley is one of the leading world's leading manufacturers of chocolate, chewing gum, mints, and fruity confections. Its iconic products include M&M'S®, SNICKERS®, ORBIT®, EXTRA® and Skittles® and more.</p> <p>The legacy gum brands have struggled. New launches and re-branding are some of the measures to address this.....</p> <ul style="list-style-type: none"> As of February 2023, the company's Hubba Bubba gum brand was transformed into a frozen treat. The new and rebranded offering is a Hubba Bubba ice lolly, featuring gum-flavoured ice with jelly layer. New Extra Pink Lemonade chewing gum was launched around mid-March 2023, as a limited-edition flavour launch. <p>Dove Dark Chocolate brand faces legal scrutiny over chemical ingredients....</p> <ul style="list-style-type: none"> As of January 2023, the company joined a class action suit filed against a set of companies for alleged undisclosed presence of heavy metals in dark chocolate brand. <p>Product recall and discontinuation.....</p> <ul style="list-style-type: none"> In January 2023, M&M, a Mars brand, discontinued its spokescandies after customer backlash. While M&M is trying to be XXXXXX and replacing them with Maya Rudolph, it is also facing backlash from some customers. Mars Wrigley US and Canada issued a voluntary recall of its gummy candies in May 2022, advising the candies or bags could contain a thin metal strand. The gummies were distributed in Canada, the US, and Mexico, and the recall affected certain varieties of Skittle Gummies, Starburst Gummies, and Life Saver gummies after customer complaints.
3	Mars Food	<p>Mars Food produces and sells various food products, including rice, sauces, meal kits, and snacks, under various brands. Mars Food has 13 brands produced worldwide and available in more than 30 countries.</p>
4	Mars Edge	<p>The Mars Edge segment supports human health through nutrition. It uses the latest science, data, and technology to create easy, enjoyable, and tailored nutrition solutions.</p>

Source: NewsBreak Original, Packaging Europe, Confectionery News, The Wall Street Journal, KamCity.

The treats and snacks category is among the focus segments for product innovations. Emerging consumer preferences such as vegan chocolates are likely to find greater emphasis in upcoming product launches.

Transforming the business in response to societal trends.....

- The company now has XX brands generating more than \$1 billion sales. By 2033, the company plans to double sales while almost tripling investments in sustainability measures, including redesigning packaging, reducing greenhouse gas emissions, and eliminating forced labor.

Driving innovation in the treats and snacks category.....

- Mars has continuously invested in driving innovation for the treats and snacks category through the unattended retail space, giving consumers more opportunities to shop for products quickly and conveniently.
- For example, in March 2023, the company partnered with Conjure, a store-hailing service provider, to introduce a "store-hailing" pilot for Mars brands with on-demand mobile ice cream stores.

Sales expansion through digital platforms.....

- As online shopping and same-day delivery are critical for brands looking to accommodate consumers' busy schedules, the company has increased its focus on digital platforms for online shopping and same-day delivery.
- For example, in September 2022, it partnered with Instacart, a grocery technology company in North America, to offer same-day delivery of more than 40 Mars brands via its retail partners.

Digital integration strategy.....

- Mars has been rapidly adopting data and technology to ensure compliant customer solutions and build a trusted brand, optimize its operational speed, and intelligent manufacturing supply chains.
- For example, Mars uses the data integration platform MuleSoft to make its data available across various platforms in real time. Also, Mars Petcare began using Vizit, an AI image analytics software, in early 2021, which resulted in a XX% higher conversion.

Exploring a range of alternatives to multilayer flexible packaging.....

- For years, Mars has been working toward making its packaging more sustainable. By 2025, it plans to make 100% of its packaging reusable, recyclable, or compostable. Due to Mars' reliance on flexible film, it faces a unique challenge in meeting these goals, given that flexible film is an excellent packaging option but is not widely recyclable.

Continue to explore the potential of alternative proteins.....

- Through its innovative and industry-leading partnerships, Mars embraces the future of snacking and treating, eco-conscious consumer trends, and caring for the planet. In June 2022, Mars partnered with Perfect Day to launch the first animal-free milk chocolate. Despite Mars already offering a range of vegan chocolate bars, this was the first major candy brand to replace animal dairy with identical proteins.

Mondelēz International | Products in Focus

The strategic focus on Chocolate and Biscuits now opens other brands/categories for competitive onslaught unless measures are undertaken at re-branding or repositioning the offering.

Product Category and Revenue Growth in 2022 (YoY)

1	Biscuits & Baked Snacks	↑	XX
2	Chocolate	↑	XX
3	Gum & Candy	↑	XX
4	Beverages	↑	XX
5	Cheese & Grocery	↓	XX

Product Category and Revenue Share - North America (2022)



- 85% ■ Biscuits & Baked Snacks
- 12% ■ Gum & Candy
- 3% ■ Chocolate

Note: Gums business for the US, Canada, and Europe markets was divested in December 2022.

Source: Bakingbusiness.com, Food Dive: Food Industry News and Analysis.

Brands / Product Categories in Focus

Lack of an anchor brand impacted chocolate expansion efforts in the US....

- The company's CEO, as of June 2022, held that the company's lack of a specific anchor chocolate brand in the US was a major gap in product expansion. The brands Milka and Oreo were just stop-gap measures in this regard.

Flagging growth in the Gums and Candy brands....

- As of December 2022, Mondelez International reached a deal to sell its gum brands (Trident, Dentyne, Stimorol, Hollywood, V6, Chiclets, Bubbalo, and Bubblicious) in the US, Canada, and Europe to the company Perfetti Van Melle. Mondelez will continue to operate the gum business outside these markets. These brands were evaluated as relatively low-performing in the overall brand portfolio.

A potential gap due to Mondelez' strategic priority....

- Mondelez International has officially stated that Chocolate and biscuits constitute its strategic growth priority. By implication, this brings to question other existing brands. While the gums business in the US was already divested, other brands such as Chipita (croissants and baked snacks) appear to be outside the strategic focus.
- The company's management held that brands like Chipita are adjacent to the chocolate and biscuits categories and will be developed accordingly. But in the current focus, it appears to be an area of opportunity for competition.

The snacking product categories are likely to undergo significant changes in line with strategic brand focus. Sports and nutrition snacking is an emerging area of emphasis, that motivated the acquisition in this regard.

Bolstering e-commerce sales.....

- To enable its refined growth strategy, Mondelēz announced significant investments of more than \$XX billion to become the digital commerce snacks leader. The company aims to deliver XX% of revenues from digital channels by 2030, up from XX% of 2021 revenues.

Focusing on the core business.....

- Chocolate and biscuits have long been at the core of Mondelez's portfolio, which also includes Cadbury. Moreover, the US group is looking to expand its XXXXX, a category it has been growing recently through acquisitions.
- The company has a long-term vision to accelerate growth and generate XX% of revenue in chocolate and biscuits, including baked snacks.

Focusing on the core business.....

- The company has strategically focused on refreshing the iconic Toblerone and Milka brands. The company's mission is to keep its brands top-of-mind for consumers by redesigning packaging, changing ingredients, or highlighting its efforts to be more sustainable.
- In addition, the company is increasing its focus on its presence in chocolate and premium offerings. Mondelez acquired XXXX, a maker of snacks and chocolates made from simple ingredients, and XXXX Shop to expand in the US.

An attractive cake and pastry market opportunity.....

- With significant opportunities in the cake and pastry category, Mondelēz aims to tap into the popularity of its snacking brands. By combining its well-known Oreo brand with recently acquired ones, such as Give & Go, a maker of brownies and cupcakes, the company can expand its reach in the cakes and pastries market.
- Despite growing revenue in cakes and pastries from \$XX million in 2018 to \$XX billion last year, Mondelēz remains a distant third with a XX% share in the \$XX billion space.

Acquisitions have been a key strategic focus.....

- Acquisitions supported the company in driving substantial revenue growth over the past years. Mondelez focuses on acquiring new brands within its core markets.
- Having more exposure to dark chocolate and premium chocolate brands could be a good opportunity for the company. As a result of its existing manufacturing and distribution network, the company can leverage its strengths to drive incremental revenue growth and profitability.

Three key areas to sustaining profitability growth and achieving long-term targets.....

- Increasing portfolio focus on the core of chocolate and biscuits
- Taking both organic and inorganic steps to fill geographic white spaces
- Increasing presence in under-represented segments and price tiers



©2023 Alchemy Research & Analytics

Durgapur | Kolkata

ALCHEMY