

# PepsiCo sees higher revenues, but inflationary challenges cut into profits

## Article

**The news:** PepsiCo reported significant revenue growth in Q2, but inflation and higher commodities costs continue to eat into profits.

**The numbers:** PepsiCo's revenues grew 13.0% year-over-year (YoY) thanks to higher pricing and shrinking product sizes.

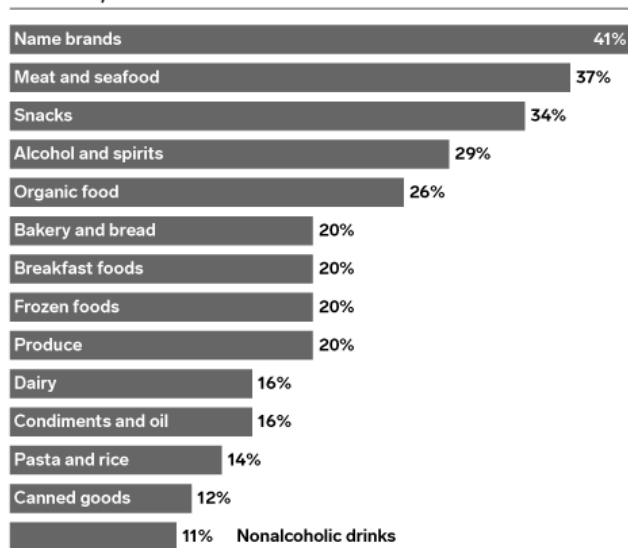
- **Its snack food brands performed well:** Frito-Lay North America's revenues grew 14% YoY, while Quaker Foods North America grew 17% YoY. That's despite a [standoff with Canada's largest grocer, Loblaws](#), which kept products from the retailer's shelves for two months.
- PepsiCo reported a **\$1.17 billion hit stemming from the continued fallout of the Russian invasion of Ukraine**, which has affected the company's European manufacturing operations.
- The company now expects organic revenues to grow 10% this year, up from its original estimate of 8%, although projected earnings remain steady.

**What this means:** While revenues for PepsiCo's North America snack division grew, volume declined—suggesting the company owes its growth more to price increases than higher demand.

- **CFO Hugh Johnston** told CNBC that the company is “taking enough pricing” to manage inflation while focusing on how to “drive costs out of the business.” That includes cost management tactics like decreasing the number of chips per bag and offering smaller variety pack sizes.
- **Price hikes haven't negatively affected demand yet**, Johnston said. The company anticipates prices will rise further this year as raw material costs continue to soar.
- However, that move isn't likely to endear the brand with retailers and consumers, both of whom are looking for [ways to cut costs](#) as higher food prices eat into budgets.

## Grocery Products US Adults Are Cutting Back on Due to Inflation, by Category, April 2022

% of respondents



Source: First Insight, "The State of Consumer Spending: Inflation Impacting Consumer Confidence," May 5, 2022

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**By contrast:** Costco has taken a different approach to inflation, one that has enabled it to grow its market share as other retailers stumble.

- Costco is **not raising membership fees or the cost of its hot dog and soda combo**, which has remained steady at \$1.50 since 1984.
- The retailer has benefited as shoppers turn to buying in bulk as a method of cutting down on grocery trips and saving money. **Same-store sales in June increased 13% YoY, excluding fuel sales, while store traffic rose 10.2% YoY.**
- The company's insistent focus on providing value to customers has paid off, allowing it to flourish as inventory challenges plague **Target, Walmart**, and other big-box retailers.

**The big takeaway:** PepsiCo and Costco have opposing interests: The former is concerned with using its market power to maximize profits, while the latter is trying hard to keep prices low to appeal to shoppers.

- But Pepsi's months-long stalemate with Loblaw's and the rise of private labels could give retailers more room to negotiate.
- As consumers grow more sensitive to allegations that companies are using price increases and "shrinkflation" to pad their bottom lines, PepsiCo and other suppliers should move

cautiously to avoid coming across as predatory.

### US Private Label Penetration Across Retail Grocer Websites, March 2022

thousands of SKUs and % of total SKUs

	# of SKUs	% of total SKUs
Walmart	12,113	10.0%
H-E-B	10,173	14.5%
Target	8,726	13.4%
Kroger	7,958	12.9%
Whole Foods	5,291	13.3%
Albertsons	4,138	10.3%
Safeway	3,482	8.3%
Sprouts	2,236	10.1%
Amazon Fresh	1,811	8.2%
Costco Wholesale	125	8.1%

Note: among leading grocery retailers that sell over 20,000 SKUs  
Source: DataWeave as cited in company blog post, April 12, 2022

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