



# PEPSICO

Crisis Program Plan Class Project

Kobe Turangan

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## **Organizational Background**

PepsiCo is a global public food and beverage company founded in 1965, providing a world wide selection of some of the most recognisable brands today (Monica 2017). Originally developed as a medicine, named after pepsin enzyme, Caleb Bradham invented Pepsi in his drug store in New Bern, North Carolina (Kickler 2016). The goal of the “healthy cola” was to aid people with digestion. Years later, Pepsi-Cola and Frito Lay merged together in 1965 to create PepsiCo Inc, a now food and beverage company in Purchase, New York (NJK 2006). The organization now has a worldwide presence with twenty-two brands and counting. From chips to beverages of all kinds, PepsiCo Inc. is worth over \$180 billion dollars.<sup>1</sup> PepsiCo products are enjoyed by customers more than one billion times a day in over 200 countries (PepsiCo 2020). Made up of the organization structure of market divisions, the company is divided into 7 sections, PepsiCo Beverages North America; Frito-Lay North America; Quaker Foods North America; Latin America; Europe; Africa, Middle East and South Asia; and Asia Pacific, Australia/New Zealand and China. Their main goal is to “Be the Global Leader in Convenient Foods and Beverages by Winning with Purpose,” reflecting their goals to win sustainability in their marketplace and all aspects of business<sup>2</sup>.

In over fifty-five years of being in business, PepsiCo has suffered little crisis situations that have impacted their reputation and stakeholders in more recent years. As a more recent crisis that gained attention in the media, in 1993, Pepsi soda cans were found to have broken syringes inside by multiple people. However, company president, Craig Weatherrup, working closely with the FDA, made countless rounds stating that with all the evidence, the syringes were going into cans after they had been opened.<sup>3</sup> This crisis was forgotten after a few years, only for PepsiCo to

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<sup>1</sup> Reference 12

<sup>2</sup> Reference 1

<sup>3</sup> Reference 5

face another harmful crisis in 2017, involving public figure, Kendall Jenner. In their Pepsi: Live for Now campaign, Jenner was directed to hand a can of soda to an officer guarding off joyous protestors.<sup>4</sup> The officer took the can of Pepsi, and the crowd erupted into joy. Missing the mark to create unity and peace within millennials, Pepsi belittled the truth behind the protest, and seemed to have romanized social injustice fighting.<sup>5</sup> The company took down the advertisement, but stakeholders and their reputation with their audience suffered, but did climb back up to their average sales as of today.<sup>6</sup>

### **Crisis Preparation (I)**

During the process of preparing for an organizational crisis, it is important to have an understanding of what a crisis is, and what the difference is between a crisis and an issue. Defined by W. Timothy Coombs in his book *Ongoing Crisis Communication*, he states that, “a crisis is a perceived violation of salience stakeholders expectations that can create negative outcomes for stakeholders and/or the organization.”<sup>7</sup> It is the perception of the stakeholders that will determine if a company is in a crisis situation. Essentially, stakeholders hold the power in setting expectations for a company, which is why crises are so dangerous to an organization's reputation. As for a crisis versus an issue, Melissa Agnes writes in her book *Crisis Ready*, that an issue is “a negative event or situation that either does not stop business as usual... However, this is not to say that issues are important to quickly detect and manage.”<sup>8</sup> On the other hand, Agnes identified a crisis as “negative event impacts, or threatens to impact, people, the environment, business operations, the organization's reputation...”<sup>9</sup> It is important to understand the difference

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<sup>4</sup> Reference 10

<sup>5</sup> Reference 10

<sup>6</sup> Reference 7

<sup>7</sup> Reference 3

<sup>8</sup> Reference 2

<sup>9</sup> Reference 2

between the two, as an issue is dealt with differently than a crisis. A crisis requires management, to “ward off or reduce the threats by providing guidance from properly handling crises.”<sup>10</sup>

### ***Crisis Overview***

Despite PepsiCo’s usual positive reputation, with an audience worldwide, if a crisis is faced, the attention will be intense. However, PepsiCo faces the constant completion of healthy eating, being mainly a company without using pure fruits and vegetables. Tagging along with following healthier alternatives, PepsiCo has been purchasing brands with great tasting sodas and health benefits. Said by Pepsi chairman, “That focus is well-aligned with Performance with Purpose, our philosophy of making more nutritious products while limiting our environmental footprint. Together, we can advance our shared vision of a healthier, more-sustainable planet” (Nooyi 2012). This demonstrates that PepsiCo is taking a step in a different direction, outside of their usual snack, sodium, and sugary type foods. Therefore, something must be done to ensure that PepsiCo is sticking true to their organizational goals of providing tasteful food, but also healthy options.

The first hypothetical crisis is that one would be an attempt to encourage and promote their new line of healthier beverages and snacks. This crisis would stem from PepsiCo promoting their new line of less sugar or sodium drinks and snacks, entailing that users would pay for those products with healthier options. An example of this would be PepsiCo releasing a new promotional commercial, stating that, “they use the purest and most natural ingredients,” in their new line of sparkling water. Rather than listing out their true ingredients of the use of food coloring, syrups, and other processed goods as “natural”, per say, PepsiCo would face a crisis in falsely advertising their new line of products. People take what they put in their bodies seriously,

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<sup>10</sup> Reference 3

and if a product is marketed as pure and natural health, people want exactly that. Therefore, I do believe that this would be a self-inflicted crisis that could stop business as usual for PepsiCo.

### ***Stakeholders***

As Pepsi is a public and global service, available for purchase in stores or even in bulk, the key stakeholders would be paying customers of the products and vendors. This being said, the largest stakeholder out of the two would be the paying customers, as their payments impact not only PepsiCo, but their vendors.<sup>11</sup> External stakeholders, the customers, not purchasing the product because of false advertisement, claiming to be healthy options, but proven to be the opposite, PepsiCo's business as usual profits would lower because of the distrust. Customers may not want to support the company's other items, not supporting the use of falsely stating health benefits of their products. As for vendors, they work with PepsiCo to sell their products, earning a small percentage in return. With customers not purchasing their new line of drinks, the vendor, for example, a department store will not make any profit. This could result in vendors no longer wanting to sell their products, as they are gaining no benefit from it. Therefore, it is crucial that PepsiCo communicates immediately, preferably taking the ad down and addressing their crisis at hand. Specifically, an effective method would be an apology and a recall of all new products being made.

### ***Spokesperson***

In the occurrence of this crisis, the organization must consider the best possible solution for a spokesperson who can successfully convey the message of their company goals and standards. Someone who would know PepsiCo's values and standards would be the chairman, or presidents of the company. With an organization as large as them, their head of business should formally address the crisis, signifying the company as a whole. Being the leader of the company,

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<sup>11</sup> Reference 8

this chairman or president did approve of the launch of the new product, and should give reason to why their new item was a mistake. Chairman of PepsiCo, Ramon Laguarta would publicly address the issue through press releases, newsrooms, formal addresses, letters, and publicize the recall of the new line. These releases should be published on every form of communication, on social media, television, live streams, and on the PepsiCo website and newsroom. They should also apologize to vendors, taking back the product with no charges, and meet their payment loss. This is an effective way to display the public service announcement, indicating that stakeholders are their number one priority.

### ***Contracting Publications***

Contacting larger key publications would be helpful in this crisis for PepsiCo. If this crisis does occur, where people's food and drink intake may be at risk, larger publication may be needed. Coombs states that "its crisis may be a part of a larger disaster, a large-scale event that may require government intervention and multiple organizations."<sup>12</sup> According to food safety laws, food can be recalled if dangerous to target parties, like those on diets or specific health needs.<sup>13</sup> Reaching out to large news companies, such as *The New York Times*, or even news channels like CNN, would be helpful in getting the word out. PepsiCo may have put their customer's health at risk for those who need certain beverages for their diets, and this must be known to them, as their website newsroom will not be seen by all. Social media is also a key aspect in contracting publications. Most of their audience is online, and the announcement will be seen more if shared by their audience to even more people. Generally speaking, if a crisis is large enough, news rooms will already cover PepsiCo's crises.

### ***Organizational Response***

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<sup>12</sup> Reference 3

<sup>13</sup> Reference 11

In addition to forming contact with publications, the organization, PepsiCo must create their own response to the crisis. According to Agnes, she mentioned that “a big part of being crisis ready is understanding the full breadth and scope of your high risk sceneries... drawing up practical action plans and resources that will successfully guide the team as it manages the crisis.<sup>14</sup>” Organizational response is crucial in response to their crisis, as stakeholders are waiting their explanations and/or apologies. If this hypothetical situation did happen to PepsiCo with false advertising of their health drinks, the company must have a plan to address their audience. The most helpful ways to respond for PepsiCo’s stance would be through a press release and “dark section” on their platforms. “The press release os a great way for organizations to get the word out in times of crisis, meaning that PepsiCo can address their false advertisement directly and timely.<sup>15</sup> If people are watching the crisis unfold in real time, they will first go to Pepsi’s website, or newsroom, and their press release will be the first official statement. Press releases could also extend to a real time presentation where reporters can get the first access to the statement release. Implementing a “dark section,” on their platforms would also be helpful, as it allows Pepsi to have time to put business as usual off until they are ready to speak out. The dark section will also share the press release and first official statements until further notifications are available. Because this crisis would be urgently needed to be addressed, I think a press release and dark section on there platforms will be the most effective in addressing their situation and their plans for it.

### ***Stakeholder Response***

Anticipated responses of stakeholders would consist of confused and upset customers. Due to the self-inflicted crisis of false advertising their health drinks, Pepsi would be at fault for

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<sup>14</sup> Reference 2

<sup>15</sup> Reference 2



giving their customers false information. Specific examples would be customers who are on strict diets and have consumed the drink without knowing it's false advertisement of being all natural and pure ingredients. There would be no excuse for PepsiCo to deny this as ingredients are listed, so they must immediately take responsibility, apologize, and take down their new line.

### ***Impact on Reputation***

Because of PepsiCo's thriving leadership in being the world's most recognizable brand, their overall reputation would not be harmed immensely since they have so many lines of products and divisions. PepsiCo is a leading company in supplying food and beverages around the world, and even when there is a delay in profits, they always have a line making enough profit to stay on target. During this hypothetical crisis, Pepsi might face a profit loss on sales and on servicing the food recall. However, with their multiple other divisions of snacks and food, their company won't lose a significant amount. Looking back at the "Live for Now" campaign, Pepsi's business went back to normal as "perhaps impacted by the brand's ubiquity during football season or the summer 2017" (Marzilli 2018). However, to fully understand the impact on their organization, Pepsi must realize that their products are well known to people, and their attempt at using the terms "natural and pure" will be found as false. From this, PepsiCo will understand and value their customers' loyalty, in hopes of establishing the trust that people have with their company for years. Releasing their press releases, food recall, and other announcements throughout their media, their apology should be consistent within them all so the message is prominent to the customer of PepsiCo's mission.

### **Crisis Preparation (II)**

Agnes states in her Crisis Ready Model, the five fundamentals of conducting audit, understanding variables, identifying high risk scenarios, designing programs, and implementing

them will prepare a company in managing real-world crisis situations<sup>16</sup>. For any well established organization like PepsiCo, it is important to understand the risk of crises that could occur, that their stakeholders will first notice. Coombs writes, “Risk can change overtime, meaning vulnerabilities are fluid... For instance, changing societal values about social issues can alter reputational risks.”<sup>17</sup> With the world and society changing everyday, it is important for PepsiCo to move with the times and understand their stakeholder’s views especially on social issues. PepsiCo must be prepared to not only face a crisis revolving around their products but how they advertise them.

### ***Crisis Overview***

PepsiCo is a very well known company with recognizable products. Their commercials specifically gain them much attention, and promote people to go out and buy their products. The second hypothetical crisis would be an attempt to market their family sized pack of chips while integrating racial injustice. “When a company aligns itself with what the young generation perceives to be good causes, it boosts sales and strengthens brand loyalty,” stated by Brayden King, Professor of Management & Organizations at Northwestern University’s Kellogg School of Management.<sup>18</sup> However, this hypothetical crisis would stem from using the terms “food brings us together, despite our differences.” In this commercial a voice over could be saying these terms, that despite where we come from, we are all the same, showing families gathering together, however it is a large group of predominantly white friends, with a “token” African American as said in the media. This commercial would launch during the time of the Black Lives Matter Movement. In this case, PepsiCo would be facing a social injustice issue. The commercial talked about being brought together, but would miss the mark as there was only one person of a

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<sup>16</sup> Reference 2

<sup>17</sup> Reference 3

<sup>18</sup> Reference 6

different race than white. During the time of social injustice, their audience would take this commercial as being a cop out of understanding what Black Lives Matter truly means. Therefore, PepsiCo must understand and research their stakeholders, and social issues going on to the full extent before releasing a commercial based around it.

### ***Stakeholders***

As Pepsi is a global service company, their key stakeholders would be the general public and their customers. Identifying stakeholders in crises are important as it “helps you better understand their individual expectations of your organization.”<sup>19</sup> If a commercial such as the example was given, the general public would be watching, giving no order to which key stakeholders matter more. The general public and customers are considered external stakeholders. When combining brand promotion with social justice, it is so important for organizations to truly understand what their general public is going through and what they are concerned with during times.<sup>20</sup> “Authenticity needs to be connected to a specific value. “Customers have to believe a company is genuinely committed to something – whether or not every individual agrees with it,” as stated by King. With customers not standing for the lack of diversity and for the insensitivity of the ad during the time of social injustice, they will not profit PepsiCo any longer. With customers not purchasing from their family chip line, profits are lost. Because of this, and during a time of injustice, PepsiCo must be extremely cautious in how they respond and to what their reasoning was behind the commercial, making sure to meet their stakeholders’, the general public’s, expectations. An apology is expected as PepsiCo would be at fault, and their stakeholders expect one during this sensitive time in the world.

### ***Spokesperson***

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<sup>19</sup> Reference 2

<sup>20</sup> Reference 2

In the occurrence of the crisis, the organization must consider the best solution in dealing with conveying their apology and social injustice. Someone who would be of perfect fit would be a leadership role in the Pepsi incorporation, preferable someone of color, and can testify to the apology of the lack of diversity. Coming from someone of color, stakeholders are more inclined to listen as they are one of them, and are also hurt about the situation. Addressing their mistake, and their lack of sensitivity towards the seriousness of social injustice, the spokesperson should be speaking out on all platforms from television to papers.

### ***Contracting Publications***

Contacting publications may not be helpful in this crisis for PepsiCo as they are at fault for producing this mistaken message in their commercial. Having larger news publications may come across as the company trying to justify their actions, where with an issue such as offending social justice, may not convey the apology that is needed. Coombs mentions that it is important to “centralize external communication... and should be consistent with the crisis effort.”<sup>21</sup> PepsiCo must focus on providing this external communication themselves, as they are dealing with their own self-made crisis, unlike the first food recall example. Most of the organization's audience is available online and through forms of media, so it is important to rather focus on their own messaging through their own platforms of press releases, social media, and other forms of reaching their audience.

### ***Organizational Response***

As mentioned, PepsiCo must create their own response to the crisis, not with other publication networks. It is important, as mentioned by Agnes, to “draw up practical action plans,” given that the company uses commercials and advertisements frequently to

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<sup>21</sup> Reference 3

communicate.<sup>22</sup> Looking back on the “Live for Now” crisis in 2017, in the article titled, “Pepsi’s ad failure shows the importance of diversity and market research” by Thomas Hobbs, he talks about how Pepsi missed their target audience of protesting millennials. Hobbs stated, “A possible lack of diversity in Pepsi’s own team is not the only issue. For Fern Miller, chief strategy officer at DigitasLBI, Pepsi failed because it didn’t reach out to protest groups.”<sup>23</sup> Being held responsible, Pepsi was said to have missed their target market, and to prioritize their research, as they completely missed their messaging goal with this advertisement. This hypothetical crisis would follow in foot, which is why organizational response is essential to this company as stakeholders are expecting a huge apology in this case, given that the crisis was so publicized on television. PepsiCo should first release a public press release apology, written for their news room to broadcast. Then, a social media response should lead customers to that apology. Finally, the spokesperson as described early should make a public response video, addressing their faults and original intentions behind the commercial gone bad. This should include apologies to the BLM community in this case, and any other social parties offended.

### ***Stakeholder Response***

Pepsico must be ready to sense risks with their stakeholders to be crisis ready, as “it diagnoses vulnerabilities.”<sup>24</sup> The response of stakeholders in this situation would be inconsistent and tricky. Given PepsiCo’s stakeholder’s their general public would be at the decision to continue their support or leave the company. Stakeholders who value social responsibility to injustice may be hurt and offended by their actions to even produce a commercial as such. PepsiCo at most, can only apologize and address their actions as needed to all parties, and it is up to the stakeholders to decide whether or not to purchase against from them.

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<sup>22</sup> Reference 2

<sup>23</sup> Reference 4

<sup>24</sup> Reference 3

***Impact on Reputation***

Because of PepsiCo's thriving popularity in the food and beverage world, along with their recognizable branding, their reputation would not be as harshly affected like other companies. Being a leading company, their lost sales over the crisis period will bounce back to normal after a few months, given that peak seasons for PepsiCo are popular. Peak season like, summer time, the SuperBowl, and other lines outside of their drinks. During the hypothetical crisis, they will lose some profits, but given their history of crises in the past, sales bounce back due to their popularity. PepsiCo, overall must recognize their faults, as crisis management will prepare the company for any crisis similar to the ones I have hypothetically created. By keeping their external communication in check, having press releases, social media, and other platforms prepared, along with correct needed messaging crisis management could save the company at the end of the day.

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