

THE PEPSI
CHALLENGE:
CAN THIS
SNACK AND
SODA GIANT
GO HEALTHY?
CEO INDRA
NOOYI SAYS
YES, BUT COLA
WARS AND
CORN PRICES
WILL TEST HER
LEADERSHIP.

BY BETSY MORRIS
PHOTOGRAPH
BY ROBERT MAXWELL



AGENTS OF CHANGE NOOYI MEETING IN HER OFFICE LAST MONTH WITH HER TOP DEPUTIES: (FROM LEFT) MIKE WHITE, JOHN COMPTON, AND MASSIMO D'AMORE. HER PREDECESSOR CALLS HER A "LARGER-THAN-LIFE LEADER."

P

PEPSI CAN HAVE a strange effect on people. The company, that is, not the beverage. No sooner had PepsiCo president Indra Nooyi gotten word 18 months ago that she was to become the next CEO than she hopped on a plane to Cape Cod, where Mike White, her main challenger for the job, was vacationing. The two had worked together for years. Both had been CFOs and rising stars. Both loved music. When they'd been kicked out of a board meeting the previous month while their fates were being discussed, they went to the *Jersey Boys* musical on Broadway and sang along to all the Frankie Valli songs.

As Nooyi's plane landed on Cape Cod, there was White waiting for her at the airport with a card he'd written to congratulate her.

They took a long walk on the beach. Back at his beach house, he played the piano and she sang. Before she left, they went for ice cream. "Tell me whatever I need to do to keep you, and I will do it," she told her longtime colleague, who was vice chairman at the time. White said he would sleep on it.

That kind of scene may be rare in the hypercompetitive realm of C-suites, but not at PepsiCo (rank on the 2007 *Fortune* 500; No. 63). PepsiCo's three ex-CEOs, all on good terms with one another, weighed in to help Nooyi keep White onboard. She says she asked the board to increase White's compensation to nearly match hers (Nooyi's 2006 compensation: \$7.1 million). White was Pepsi's best operations man—the kind of guy who would be indispensable in a downturn. He would be an important advisor. In the end, White decided to stay. When it was his turn to speak to the troops at the meeting the following week to announce Nooyi's appointment, he put it this way: "I play the piano and Indra sings." Says Nooyi: "I treat Mike as my partner. He could easily have been CEO." At key meetings she makes sure he is seated on her right.

That isn't the way a new CEO usually takes charge, but Indra Nooyi is an entirely different kind of CEO, a product of her native India as well as of PepsiCo's family-values approach to grooming CEOs. She is not hung up on pay. She's not shy about asking for help when she needs it. She's 52 years old and does not plan for this job to be her last. Her friend Henry Kissinger predicts that it's only a matter of time before she is plucked for a big Washington post, possibly a cabinet job, and Nooyi acknowledges that at some point, she'd like that. She's cosmopolitan, rigorously educated, and a strategic thinker—her background is Boston Consulting Group—much more interested in the burgeoning markets in Russia and China than in the noisy U.S. cola wars. A dinner gathering at her house is as likely

to include Tony Blair and government ministers from India or Mexico as traditional pinstriped business types. As a vegetarian who for years has been talking about the importance of "gut health," she's not who you'd think would be leading a maker of sugary soda and salty snacks—but that's why she's taking the company in a different direction. She sings karaoke; she plays electric guitar. Her South Asian heritage gives her a wide-angle view on the world.

Since becoming CEO, she has reorganized PepsiCo to make it less fixated on the U.S. and broadened the power structure by doubling her executive team to 29. She has installed an Italian native, Massimo d'Amore, atop the division that includes the troublesome U.S. soft drink business, and recruited a former Mayo Clinic endocrinologist to head up R&D. Last year she spent \$1.3 billion on acquisitions like Naked Juice, a California maker of soy drinks and organic juice. She has created a motto—"Performance With Purpose"—that puts a positive spin on how she wants PepsiCo to do business both at home and abroad.

It essentially boils down to balancing the profit motive with making healthier snacks, striving for a net-zero impact on the environment, and taking care of your workforce. "If all you want is to screw this company down tight and get double-digit earnings growth and nothing else, then I'm the wrong person," she says. "Companies today are bigger than many economies. We are little republics. We are engines of efficiency. If companies don't do [responsible] things, who is going to? Why not start making change now?"

Nooyi didn't wait to become an elder statesman CEO before making herself heard on the public stage. Her predecessor, Steven Reinemund, calls her a "larger-than-life leader." In a speech to the food industry in January, she pushed the group to tackle obesity. "Do you remember campaigns like 'Keep America beautiful? What about 'Buckle up?'" she asked. "I believe we need an approach like this to attack obesity. Let's be a good industry that does 100% of what it possibly can—not grudgingly but willingly." At the 2008 World Economic Forum in Davos she told Secretary of State Condoleezza Rice it was critically important that "we use corporations as a productive player in addressing some of the big issues facing the world."

Her fluency in the global arena is increasingly critical to the business. With the U.S. marketplace in slow-growth mode even in the best of times, the biggest opportunities are overseas. PepsiCo's international business grew 22% last year, triple the rate of domestic sales, and now contributes 40% of total revenue (839 billion last year). And a CEO had better be taking the moral high road. There is no

TEAM PEPSI



JOHN COMPTON
CEO, PEPSICO AMERICAS FOODS
2007 REVENUE
\$17.8 BILLION
PRODUCTS:
BAKED LAYS,
STACY'S SOY CRISPS, SABRITAS
THE POPULAR TENNESSEE NATIVE IS A LEADING CANDIDATE TO BE NOOYI'S SUCCESSOR.



MASSIMO D'AMORE
CEO, PEPSICO AMERICAS BEVERAGES
2007 REVENUE
\$11.8 BILLION
PRODUCTS:
PEPSI MAX, SOBE LIFE WATER, NAKED JUICE
NOOYI CALLS HIM THE COMPANY'S "BEST BRAND BUILDER"; ASSIGNED TO JUICE UP THE BEVERAGE BUSINESS.



MIKE WHITE
CEO, PEPSICO INTERNATIONAL
2007 REVENUE
\$9.9 BILLION
PRODUCTS:
MIRINDA STRAWBERRY, WALKERS CHEESE & ONION, OAT SO SIMPLE
AN OPERATIONS WIZ, HE'S RESPONSIBLE FOR THE COMPANY'S RAPID GROWTH OVERSEAS.

longer a free pass for the ugly American company: Should Baked Lays fail to live up to its health claims, it'll get bounced off the store shelf by regulators in Britain. And if you are just the next greedy American corporation, you don't stand a chance in China's tight labor market. Set too ambitious a profit target in India, and there will be hell to pay if your bottling company drains the water table.

"If you look at the job entirely from the American perspective, then it becomes impossible to run a global business," says Kissinger, who consults for Pepsi and other companies on international matters. "You have to relate your interests to the interests of other parts of the world—to be relevant in their societies. Indra seems to understand this instinctively"

Suddenly, however, a change in the economic environment is likely to test whether Nooyi is a leader for all seasons. With a possible recession looming in the U.S., PepsiCo is headed into the toughest period it has faced in a decade. Prices are soaring for its main ingredients, commodities like corn and cooking oil. Its newest products, like premium-priced juice, may face resistance from budget-conscious consumers. Meanwhile, archrival Coke is gearing up to revive the cola wars with such products as calorie-free Coke Zero, which looks like a hit, and the company's newly acquired Vitaminwater lineup.

For a long time, investors have been enamored of PepsiCo (PEP) for its bold strategic moves and steady, reliable growth. The company's stock has more than doubled since 2003 and now hovers around \$70 a share, up about 10% since she took over. But Wall Street will care much more about how well Nooyi handles corn prices than about how well she solves world problems. So far, so good. In the fourth quarter of 2007, revenue went up 17%, to \$12.3 billion, and operating profits rose 9%, to \$1.7 billion. Industry analysts at Bank of America say PepsiCo "is demonstrating great flexibility in a tough environment."

NOOYI HAS A HARD ACT TO FOLLOW—one she played a part in shaping. Insiders attribute PepsiCo's success to the combination of the two cultures that were merged to form the company in 1965: the get-things-done expertise of Frito-Lay and the never-take-anything-for-granted underdog mentality of Pepsi-Cola, which Coke had nearly put out of business. The result was a contrarian, risk-taking big company that prides itself on acting like a small company and has posted an eye-popping compound annual growth rate of 13% over the past 42 years. Since 2000 the company's revenue has nearly doubled. As PepsiCo's strategy and M&A chief, Nooyi created a growth machine, shedding restaurants and bottlers and buying Tropicana and Quaker Oats.



SMOOTHIE OPERATORS PEPSICO'S PURCHASE OF SOUTHERN CALIFORNIA'S NAKED JUICE IN 2007 MADE THE COMPANY A STRONGER PLAYER IN THE BOOMING HEALTHY-BEVERAGE SEGMENT. NAKED CHARGES A PREMIUM PRICE: ABOUT \$3 FOR A 15-OUNCE BOTTLE.

PepsiCo today has a completely different flavor. Old Pepsi: Fritos and Cheetos. New Pepsi: Stacy's Simply Naked (pita chips) and Flat Earth (fruit and veggie chips). Old Pepsi: Diet Pepsi and Mountain Dew. New Pepsi: Naked Juice Pomegranate Blueberry and IZZE Sparkling Clementine. Old Pepsi: ill-fitting acquisitions like North American Van Lines and Wilson Sporting Goods. New Pepsi: joint ventures with compatible partners like Lipton (bottled ice teas) and Starbucks (canned frappuccino).

New Pepsi was so early getting beyond soda pop and into the healthier, faster-growing noncarbonated beverages (bottled water, sports drinks, and teas) that it commands half the U.S. market, about twice Coke's share, according to Beverage Digest. Not that PepsiCo is anywhere near becoming purely a health-food company, mind you. The bulk of its products (upwards of 70%) are still in what it euphemistically calls "fun for you" foods; as opposed to its two other internal categories, "better for you" and "good for you." But its acquisitions and product reformulations, even in fried-food-loving markets like Mexico, indicate the strategic shift is more than just show.

Taking the right side of public opinion, of course, has additional benefits in blunting potential legislation, regulation, and criticism that take aim at junk food and soda pop for obesity rates. It doesn't, however, protect against a sudden change in Zeitgeist about products like bottled water—PepsiCo's brand

is Aquafina—the most innocent of all beverages but lately under siege as environmentally wasteful. At a time when public opinion and tastes can surprise even a fast-moving company like PepsiCo, the CEO of a consumer products company has to be extraordinarily adaptable.

INDRA KRISHNAMURTHY NOOYI has one of those incredible, impeccable track records. She grew up in Chennai (formerly Madras), on the southeast coast of India, the daughter of an accountant and a stay-at-home mother who "encouraged us but held us back, told us we could rule the country as long as we kept the home

fires burning," she says. Her grandfather, a retired judge, scrutinized report cards, presided over homework, and in his later years prepared her in advance for all the theorems in her geometry book to be sure she'd be able to excel if he were to die before the school year ended. Every night at dinner her mother would present a world problem to Nooyi and her sister and have them compete to solve it as if they were a President or Prime Minister. Though her family is Hindu, Nooyi attended a Catholic school, was an avid debater, played cricket, badgered her parents (and the nuns) until she was allowed to play the guitar, and then formed an all-girl rock band—the first ever at the Holy Angels Convent. Though the band knew only a handful of songs (including "Proud

AS A
VEGETARIAN,
SHE'S NOT
WHO YOU'D
THINK
WOULD BE
LEADING THE
MAKER OF
SUGARY SODA
AND SALTY
SNACKS.

Mary" and "Yummy, Yummy, Yummy"), "we were a sensation," she says exuberantly.

Nooyi collected master's degrees in business from the Indian Institute of Management in Calcutta and the Yale School of Management. She did stints at Boston Consulting Group and then held strategic-planning positions at Motorola and the engineering firm Asea Brown Boveri. She was about to go to work for Jack Welch at General Electric when former PepsiCo CEO Wayne Galloway, then a GE board member, lured her to PepsiCo instead. He told her PepsiCo needed her more than GE did, and that was exactly the right button to push.

When Nooyi stepped into her new job as CEO, she had an unusually large council of elders to guide her: three former PepsiCo CEOs who keep in touch with one another almost daily. They have no organizational ties—they're friends. "She gets help if she wants it, but not if she doesn't," says Reinemund. He stays in contact from his home in Dallas, as does his predecessor, Roger Enrico, chairman of DreamWorks Animation, from La Jolla, Calif. Don Kendall, 86-year-old co-founder of the modern PepsiCo, has an office down the hall from Nooyi's and serves as a consultant. Nooyi says Reinemund will e-mail her back in 30 seconds and offer to fly up to her office in Purchase, N.Y., if she needs advice. "They were my bosses and my best, best friends," she says. They call her on special occasions and sometimes show up for birthdays.

NOT LONG AFTER Nooyi joined PepsiCo in 1994, its recipe for growth suddenly wasn't working anymore. Its restaurant operations, which included Pizza Hut, Taco Bell, and KFC, stalled. An attempt to catch up to Coke overseas—Coke had 71% of its revenue from international sales, vs. PepsiCo's 29%—was a disaster. Enrico took a painful round of write-downs in 1996. Coca-Cola would soon embark on a trajectory that would dazzle Wall Street and turn up the heat in the PepsiCo boardroom.

As Enrico's strategy chief and head of M&A, Nooyi restructured the company out of the wilderness. She went into suburban America and decided that the fast-food marketplace was saturated and the real estate was a hard investment to maximize—Pizza Hut had no breakfast traffic. So PepsiCo spun off the restaurant business in 1997—no small step, since it would shrink the \$31 billion company by a third. She championed the acquisition of Tropicana for \$3.3 billion the following year and later the \$14 billion acquisition of Quaker, both of which gave PepsiCo some brand names that could help change its reputation. As she explained later in *India's Economic Times*: "If you want to make a healthy product, you could not use any other Frito brands. To call them the Lays bar or Ruffles bar and expect to use it for breakfast would be crazy." (That didn't stop PepsiCo from coming up with an equally oxymoronic product, Quaker Breakfast Cookies.)

Nooyi also gave a pivotal presentation to the board in 1998—just as the heat from Coke was becoming unbearable—that dissected the rival's business model and made a persuasive case that its double-digit growth was not sustainable. "It was a tour de force," says Enrico, who is convinced that "at that moment the PepsiCo board understood Coke's business model better than

PEPSI'S GENERATIONS

HOW SNACKS AND BEVERAGES GOT HEALTHIER, CHIP BY CHIP.

1898 Pepsi-Cola, introduced by a pharmacist as a fountain drink in 1898, embraces youth with a new ad campaign: "Come alive! You're in the Pepsi Generation."

1965 PepsiCo Inc. is born when Frito-Lay's **Herman Lay** (left) and Pepsi's **Donald Kendall** merge the companies.

1966 Doritos tortilla chips are introduced. In two decades the brand will reach annual sales of \$1 billion.

1969 Pepsi-Cola launches a new campaign: "You've got a lot to live, Pepsi's got a lot to give."

1970 Pepsi offers recyclable plastic bottles, an industry first.

1972 Pepsi-Cola becomes one of the first U.S. products sold in the Soviet Union.

1975 Pepsi Light is launched, with distinct lemon flavor.

1976 The Pepsi Challenge taste test pits Pepsi vs. Coke.

1977 PepsiCo acquires Kansas-based **Pizza Hut**.

1978 Company buys **Taco Bell**, a chain of 868 restaurants.

1981 Frito-Lay starts listing ingredients on its packaging.

1982 Pepsi-Cola opens its first operation in China.

1986 PepsiCo buys **Kentucky Fried Chicken**.

1988 "Chase," a four-part Pepsi ad with Michael Jackson, becomes one of the most-watched commercials in history.

1991 Frito-Lay launches **SunChips**, its first multigrain snack.

1995 Frito-Lay introduces **Baked Lays** and tests **Ruffles Reduced Fat Potato Chips**.

1996 **Roger Enrico** becomes CEO and turns the company toward healthier beverages.

1997 PepsiCo spins off its restaurant businesses and introduces **Aquafina** bottled water.

1998 Company pays \$3.3 billion to buy **Tropicana Products**, the world's largest branded-juice producer.

2000 PepsiCo buys majority stake in South Beach Beverage Co., maker of **SoBe** noncarbonated drinks.

2001 PepsiCo buys **Quaker Oats**, maker of Gatorade.

2002 Frito-Lay announces it is removing trans fats from Doritos, Tostitos, and Cheetos.

2005 Gatorade introduces **Propel Calcium**, the first calcium-enhanced fitness water.

2006 Indra Nooyi is named CEO. PepsiCo buys **IZZE**, a Colorado-based maker of sparkling juice drinks.

2007 PepsiCo acquires **Naked Juice**, a California maker of bottled smoothies and other fruit drinks.



GLOBAL THIRST INTERNATIONAL SALES MAKE UP 40% OF PEPSICO'S TOTAL. IN CHINA, A DISPLAY MADE OF 30,000 SODA CANS IS A TRIBUTE TO THE LUNAR NEW YEAR. IN INDIA, A WORKER IN A PEPSICO-MANAGED GREENHOUSE SPRAYS SAPLINGS THAT WILL GROW INTO CITRUS TREES.

Coke's board did." Four months after the presentation Coke stock peaked at \$88 and began a long downward slide.

In the mid-iggos, Nooyi says, Enrico asked her to devise a strategy that could make PepsiCo the "defining corporation for the 21st century." (He remembers saying he wanted PepsiCo to be more like GE.) She drew up scenarios of what that might look like via path A, B, or C. "We picked a particular path, and Quaker Oats was part of that path," she says, along with three smaller "tuck-in" acquisitions. Enrico made Nooyi his CFO, and to this day, he says, she is "the best negotiator I've ever seen in my entire life." Still, he didn't think she was on track to be CEO because "I constantly felt she needed to go do an operating job." His successor, Reinemund, made Nooyi his president and came to feel differently after she successfully integrated the Quaker acquisition. She proved herself both analytical and visionary. She also shared his conviction that the health movement was for real and demanded true innovation—though when fitness freak Reinemund told her he wanted her to run the New York City marathon with him for PepsiCo, she replied, "Well, Steve, I can run it in over a month: a stop here, some shopping there ..." Very early on she made the right calls on the green issue as well. She so readily loosened the capital expenditure requirements for water- and heat-related conservation projects in a Frito-Lay meeting eight years ago that executives remember being stunned by it. "Was that a yes? Can we do that?" sustainability VP David Haft recalls asking his boss immediately after. Those kinds of projects now save Frito-Lay \$55 million annually.

As CEO she's been able to stick to her plans for change, which call for gradually shifting the percentage of "better for you" and "good for you" snacks to 50%, up from 30%, and widening the product portfolio with grains, nuts, and fruits. Nooyi has

helped shape a model that enabled PepsiCo to pump out new products. Last year the company offered potato chips in 150 different flavors and 55 different variations on orange juice. In December she recruited Dr. Mehmood Khan from the top R&D job at Takeda Pharmaceuticals to be PepsiCo's first chief scientific officer. That may sound dramatic, but in the area of food research, says Morgan Stanley analyst Bill Pecoriello, U.S. food companies are actually falling behind. Switzerland's Nestle, for example, outspends PepsiCo on R&D (1.6% of sales to 1%) and is calling itself a nutrition company while trying to figure out whether food can prevent disease. Last year PepsiCo bought or partnered with a Bulgarian nut packager, an Israeli hummus maker, and Naked Juice, which makes nutritional beverages like smoothies. "Is Naked Juice a beverage or is it a snack?" Nooyi muses. "I think we can liquefy snacks or snackify liquids."

ONE OF NOOYI'S MOST stunning talents is the art of suasion. She can rouse an audience and rally them around something as mind-numbing as a new companywide software installation. Her new motto, "Performance With Purpose," is both a means of "herding the organization" and of presenting PepsiCo globally. Because these days, she knows, you can't take even an emerging market for granted. Says Zein Abdulla, president of PepsiCo Europe: "People still tend to think of the emerging markets as, Oh, well, just do your core portfolio and then sometime in the future when they catch up with the West, you'll do the rest." Well, guess what? They've already caught up. Fully half of PepsiCo's Russian beverage business is noncarbonated drinks—juice, water, tea, energy drinks. Global brands like Pepsi don't play the way they used to. "They work," Abdulla says, "but they are not monolithic."

AS A KID, SHE
LEARNED
TO PLAY THE
ELECTRIC
GUITAR
AND FORMED
AN ALL-
GIRL ROCK
BAND: "WE
WERE A
SENSATION."

NOOYI SELLS HER IDEAS with a famous intensity. Her colleagues say she "brings her whole self" to the office. She insists that everybody's birthday is celebrated with a cake... and everyone is forever 35. Her karaoke machine is the ubiquitous party game at every PepsiCo gathering. She talks about being a mother. In December one executive recalls how Nooyi described to her whole team what it felt like to be a soccer mom whose week it was to bring the treats. You get a very specific list. You can't have nuts. You can't have wheat. The situation confounds the CEO mom, she confesses, urging them to "make it easy for me so I don't have to think. We can do this. We already have the products."

Just as she was held to very high standards in her youth, she expects everyone around her to measure up. She has red, green, and purple pens and uses them liberally to mark up everything that crosses her desk. "My scribbles are legendary—legendary," she says with a twinkle. Like "I have never seen such gross incompetence." Or "'This is unacceptable,' and I underline 'unacceptable' three times," she says. She's joking, but she gets her point across. One of her so-called love letters once scared some secretaries so badly that she had to go assure them that their bosses were not about to lose their jobs.

"She challenges you," says Tim Minges, president of the Asia Pacific region. When his team couldn't find an inexpensive alternative to palm oil for its products in Thailand last year, she kept pushing and pushing, saying, "I hear you, I hear you, so what's the right solution?" until they came up with one: rice bran oil. "But don't try to delegate up, because she will bounce it right back in your face," he says.

She is decisive, sometimes in ways that appear capricious, and impervious to the effect it can have. In December she ducked out of giving a keynote speech at a major soft-drink industry conference at the last minute, sending what many considered a lame excuse and dispatching a subordinate to give the speech instead. Nooyi sent word she wanted to yield the spotlight to Coke CEO Neville Isdell, who had recently announced his successor, Muhtar Kent. This drew a statement from Coke: "Neville came here this morning to hear Indra's presentation, so it's unfortunate that she decided not to attend. It would seem to us that if Indra really wanted to pay her respects to Neville, she could have done it in a very classy way from the podium." Her absence contributed to the impression that she can sometimes be temperamental, if not "brittle," as an industry

analyst called her. And she has sometimes been slow to alter her position in the face of changing facts. Nooyi says she wishes she had reacted differently to allegations in India five years ago that traces of pesticide had been found in both Pepsi and Coke. The company denied the claims and did scientific analysis to support its position. At the time it was not her direct responsibility (she was president, and White ran international), "but I was the face of India. I should have hopped on a plane right away and said, 'Guys, I assure you, these products are the safest,'" she says now. "At that point it didn't occur to me. That's the thing I regret. Now if it happened—man, I would be there in an instant."

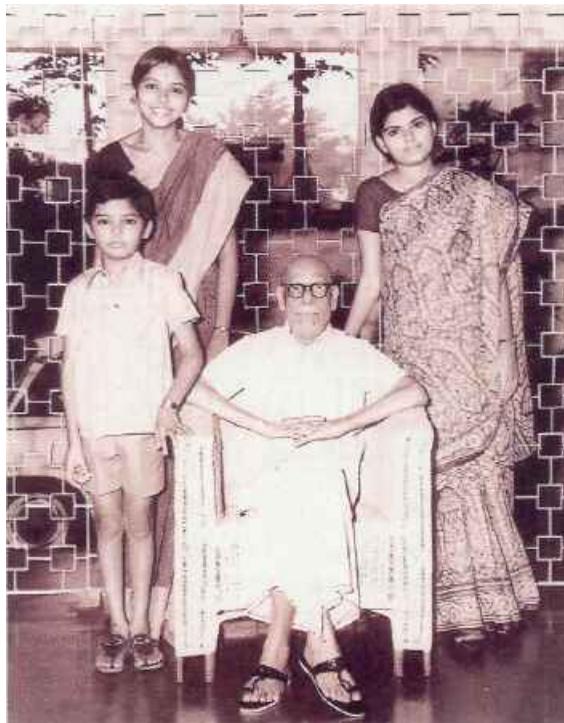
With her team, there's nothing remote about Nooyi. She is part scholmarm, part mother hen. She once told Hugh Johnston, who worked for her in corporate strategy, that he was dressed like a bum. At the time he was helping roll out the company's IT program, and he replied, "Indra, these are IT people; this is what we do. We don't go out of the building." When he moved to headquarters, she told him where to shop, and he has acquired a whole new wardrobe. She knows she is demanding, and she worries about it. She throws dinners for members of her team and their spouses, including Q&A sessions in which she insists on getting questions from the spouses and won't sit down until she does.

She appreciates the support from families, she says, because her career has been tough on her own family. For a long time,

Nooyi says, she woke up each morning feeling "guilty about everything." Her career caused her husband, Raj, a University of Chicago MBA with degrees in electrical and industrial engineering, to leave a career at Hewlett-Packard that he loved; he's now a consultant. "He helps me. He supports me. He's a man with a big heart," she says. Her incessant travel took a toll on her oldest daughter, and Nooyi regrets it. So she was overjoyed when she heard Preetha, now 24 and "my biggest critic," tell a friend recently, "Well, big companies are bad, but I beg to differ about PepsiCo." Nooyi has worked hard to be around for 15-year-old Tara. On long trips, Nooyi calls frequently to keep in touch. On domestic trips she'll do practically anything to get home at night to be there for breakfast. During an especially tough week last month she received the following e-mail at work from Tara: "You need to sleep Mom! This is ridiculous! If you plan to do well in Davos then you need to sleep!"

RESEARCH ASSOCIATE Patricia A. Neering

FEEDKf.CKbmorris@fortunemaH.com



A MADRAS CHILDHOOD | INDRANOOYI (SECOND FROM LEFT) WITH HER BROTHER NANDU NARAYANAN (LEFT), GRANDFATHER A. NARAYANA SARMA, AND OLDER SISTER CHANDRIKA TANDON

Her entire life has been an intricate web of tradeoffs and self-deprivation. Growing up, she was dying for an electric guitar; eventually her father bought her an acoustic "with a pickup." It wasn't until three years ago that she indulged herself. "I went out and bought Fenders, a Gibson acoustic, a Martin acoustic, a Yamaha 12-string," she says proudly. Does she get to play much? For a rare moment, she's wistful. "I play the guitar when I want to relax. But to play the guitar, you cut the nails," she says, looking at her manicure. "So one day I'll cut the nails off. Now, when I bite my nails, I play the guitar."

There will be more tradeoffs to come. Good deeds are expensive. Healthier ingredients can be too. "I'll be honest with you. We did have the wind at our backs, and it's much harder to sustain great performance [in a slumping economy]," she said recently. But "you give the team of people a set of objectives and goals and get them all to buy into it, and they can move mountains." The company wowed the market with its recent year-end earnings results by boosting volume in the face of a second year of rising commodity costs. PepsiCo did it through a combination of new products, productivity improvements, higher prices, and packaging tweaks. (It calls that "weight-outs"—charging more for less.) Analysts expect this year to be even more challenging. Healthier new products are pricier than Pepsi and Lays. And PepsiCo, with snacks and all that Gatorade, is way more exposed to inflation than Coke, which peddles mostly concentrate to bottlers who sweeten the soda. PepsiCo expects a 6% increase in raw material costs next year, says Morgan Stanley's Pecoriello, while Coke expects none. Commodity costs make up about 25% of PepsiCo's total revenue, compared with 11% of Coke's, says *Beverage Digest's* John Sicher.

AT A TIME WHEN SHE'D like to be focusing on foods of the future, suddenly she's back in the cola wars, a resurgent Coke on her flank. With lower costs and its newly acquired Vitaminwater, Coke could be a real problem again. (PepsiCo hopes to counter with a new, lower-calorie Gatorade called G2.) Revived talk of the corporate rivalry makes Nooyi touchy: PepsiCo's revenues now come more from food than from beverages. "From my perspective, we are a different company ... different from a business makeup, different culturally, in the way

we think, the way we act. We are different every which way," she says. "So if people want to compare us, go right ahead. Is Coke going to have some tailwinds because of [the weak dollar] and the beverage business? Sure. But more power to them. The point is, we are in businesses that give you more good-for-you products, and that means closer to crops. When you're closer to crops, you're going to have some inflation. Am I going to regret it? No, I'm proud of the fact we made the transition."

She has told Wall Street she expects the company to continue to meet growth targets. She acknowledged to analysts earlier this month that "this level of price increase is uncharted territory, because for many, many years both snacks and beverages were in a deflationary environment. So we have to navigate through this thing carefully." For now she knows she'll have to adjust the pace at which she makes PepsiCo the "defining corporation." She's toned down the rhetoric. "The fact of the matter is we operate within the stock market, which has a certain psyche, which has a certain approach to everything, and we can't ignore that."

Yet the tactical fight for market share is not likely to engage her for long. At some point, that role in government will beckon. Asked about the prospect in January, she brightened immediately. Ever the strategist, she has more than just thought about it. "After PepsiCo, I do want to go to Washington/she said/I want to give back—to work for no money for four or five years." Not now, she says firmly, but after the next presidential term sounds like a possibility. For now her job is to run PepsiCo. You can bet she'll be looking for an acquisition if the opportunity presents itself. That would keep her challenged. Nooyi said last year that part of her plan was to grow PepsiCo by M&A. PepsiCo reportedly approached Nestle last year about a merger with the larger Swiss company,

which would have created a behemoth with a market value of more than \$250 billion. Nooyi won't comment except to say that anything like that is out of the question right now. It's safe to say, though, she'll be focused on the future. Her biggest test may be how well she's able to calibrate her visionary thinking to a tougher climate, when resources cost more, customers are cautious, and the long-running cola wars are far from settled. ■

SHE CHAFES AT MENTIONS OF COKE. "WE ARE DIFFERENT CULTURALLY, IN THE WAY WE THINK, THE WAY WE ACT. EVERY WHICH WAY."



CORPORATE DIPLOMAT NOOYI WITH KISSINGER IN DAVOS, WHERE SHE CALLED FOR CEOs TO STEP UP, COMPANIES TODAY, SHE SAYS, "ARE LITTLE REPUBLICS."