PepsiCo looks to generate buzz with new Hive incubator

Author

Jessi Devenyns

Published

July 11, 2018

Dive Brief:

- PepsiCo is launching a new center for innovation called “The Hive” to help cultivate its niche brands, PepsiCo CEO Indra Nooyi said on an investor results call.
- This incubator will be a separate entrepreneurial group outside of the core headquarters that will help nurture niche products already in the portfolio as well as look at other venturing brands that PepsiCo can bring into the fold.
- In June, PepsiCo announced it was partnering with the Chicago-based incubator “The Hatchery,” a nonprofit food and beverage incubator.

Dive Insight:

With little to risk and a lot to gain, PepsiCo is the latest CPG company to get into the incubator game. Already, many of its peers in the food space, including Kraft Heinz, Kellogg, Campbell Soup, Nestlé and Conagra have already undertaken similar initiatives.

PepsiCo's decision to enter the incubator space signals that small, nimble food startups have made inroads into interesting, unique and healthy products that food and beverage companies need more of in the face of growing competition and slumping sales. Statistically, this trend is backed by data showing that the share of retail sales held by the top 25 food manufacturers in U.S. food and beverages declined from 66% in 2012 to 63% in 2015, according to a study from A.T. Kearney and The Hartman Group.

PepsiCo has recently moved aggressively to look outside the company's headquarters for innovation and R&D. First, it invested in Chicago's Hatchery where it can closely collaborate with snacking businesses in hopes of discovering a product it can launch into the consumer consciousness through its already established relationships and distribution channels.

Now, by backing its own VC firm, PepsiCo is able to have unlimited access to ideas from startups in a variety of food and beverage verticals. With entrepreneurs at its fingertips, PepsiCo likely is hoping to find innovators and ideas that it can incorporate into its own portfolio. Perhaps by allowing ideas to germinate under its careful watch, PepsiCo can avoid the pitfall of overpaying for startups.

"It's going to be an entrepreneurial group that's going to take some of the best new products that we launched and reached a certain size … in whatever distribution system they think is the best for it and when it reaches a certain size, we can decide whether it should come into the DSD system or not," Nooyi told investors.

Although their North American arm is just now venturing into the incubator space, PepsiCo is not new to this strategy. The snack and beverage giant has something similar in Europe, according to the company.

PepsiCo has acquired Bare and Kevita, among other brands, in an effort to grow its roster of better-for-you brands and cater to consumers who like trying new things. According to Nooyi, the company is committed to growing the healthful, innovative side of its business. Nooyi estimated PepsiCo has grown its business of good-for you and better-for-you products from 38% of revenue in 2006 to about 50% last year.

Still, with all the big names getting involved it may give startups the upper hand rather than the legacy companies who are investing. As established companies desperately search for a way to revitalize their businesses, they may end up overpaying for fledgling companies.

In addition, by introducing too many brands and fragmenting their core product offerings, PepsiCo and others run the risk of alienating those who love the company for what they are known for and do well. It's important for PepsiCo to position itself for where the consumer is going, but sugary drinks like soda are still major revenue streams that can help fund investments in these new up-and-comingbrands.

Recommended Reading:

Seeking Alpha PepsiCo Inc (PEP) CEO Indra Nooyi on Q2 2018 Results - Earnings Call Transcript

Top image credit: PepsiCo