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PEP - Q2 2020 PepsiCo Inc Earnings Q&A Conference Call

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CORPORATE PARTICIPANTS

Hugh F. Johnston *PepsiCo, Inc. - Vice Chairman, Executive VP & CFO*

Ramon Luis Laguarta *PepsiCo, Inc. - Chairman & CEO*

Ravi Pamnani *PepsiCo, Inc. - SVP of IR*

CONFERENCE CALL PARTICIPANTS

Andrea Faria Teixeira *JPMorgan Chase & Co, Research Division - MD*

Bonnie Lee Herzog *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Bryan Douglass Spillane *BofA Merrill Lynch, Research Division - MD of Equity Research*

Dara Warren Mohsenian *Morgan Stanley, Research Division - MD*

Kevin Michael Grundy *Jefferies LLC, Research Division - Senior VP & Equity Analyst*

Lauren Rae Lieberman *Barclays Bank PLC, Research Division - MD & Senior Research Analyst*

Laurent Daniel Grandet *Guggenheim Securities, LLC, Research Division - Senior Analyst and MD of the Consumer & Retail Team*

Robert Edward Ottenstein *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Beverages Research & Fundamental Research Analyst*

Sean Roberts King *UBS Investment Bank, Research Division - Equity Research Analyst of Beverages*

Stephen Robert R. Powers *Deutsche Bank AG, Research Division - Research Analyst*

Vivien Nicole Azer *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

PRESENTATION

Operator

Good morning, and welcome to PepsiCo's Second Quarter Earnings Question-and-Answer Session. (Operator Instructions) Today's call is being recorded and be archived at www.pepsico.com.

It is now my pleasure to introduce Mr. Ravi Pamnani, Senior Vice President of Investor Relations. Mr. Pamnani, you may begin.

Ravi Pamnani - *PepsiCo, Inc. - SVP of IR*

Thank you, operator. I hope everyone has had the chance this morning to review our press release and prepared comments, both of which are available on our website.

Before we begin, please take note of our cautionary statement. We may make forward-looking statements on today's call, including about our business plans and the potential impact of the COVID-19 pandemic on our business. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, and we are under no obligation to update.

When discussing our results, we may refer to non-GAAP measures which exclude certain items from reported results. Please refer to today's earnings release and 10-Q available on pepsico.com for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements.

Joining me today are PepsiCo's Chairman and CEO, Ramon Laguarta; and PepsiCo's Vice Chairman and CFO, Hugh Johnston. (Operator Instructions)

And with that, I will turn it over to the operator for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dara Mohsenian of Morgan Stanley.

Dara Warren Mohsenian - *Morgan Stanley, Research Division - MD*

First of all, the format's very helpful, so kudos to your IR team for sort of pioneering this new format on the Street.

Yes. I was hoping for a bit more color on some of the more volatile areas of your business. You obviously mentioned improvements sequentially within the quarter and guided to the organic sales growth acceleration globally in Q3. So A, can you just give us a better sense of what specifically is driving that? And then B, I was hoping you could spend some time within that just discussing what you're seeing channel-wise in the U.S. beverage business and what you're seeing across snacks and beverages in some of your key emerging markets. Are you expecting pretty linear progress sequentially going forward in terms of improving sales growth and more volatility, particularly with some of the state restrictions cropping back up in the U.S.? And just given the developing market, country performance is pretty divergent in Q2.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Okay. Dara, I hope you're doing well. Listen, let me try, and then Hugh will add some comments as well.

Listen, we're -- as we look around the world, we see a couple of factors that are driving our business. #1, as you can imagine, is overall mobility in the country, and that is by far the #1 factor. And we're monitoring mobility through various means just to understand potential future performance of the business. That's #1.

#2, and that impacts mostly developing market, is the universe of stores that are opened. What we're seeing in developing markets is that when situation -- when the infection goes up in the country, there's about 10% to 15% of the stores that close and sometimes even higher, and that drives a lot of the performance. So that's #2.

#3, obviously, is where do people eat most of their meals? And that's related to whether people are working from home or they're not working from home. And so that's a third factor that is impacting most of the food consumption. So that could be mobility, but then people still have their meals at home.

And so those 3 are the key factors. Obviously, there's a fourth factor I think will be more important going forward, which is disposable income in the economy. And that's related to unemployment and that's related to how much money the governments are putting back into the economy. And that is -- it hasn't impacted the U.S. yet. It is impacting some of the other countries around the world as the governments don't have the muscle to put so much money back into the economy.

So those 4 are probably the most critical kind of factors that impact the business, and that's what we're modeling for various scenarios as we go forward. So that's kind of from a very macro point of view.

Obviously, I said in the last conf call that we had in April that this was not going to be a linear recovery, right? There's going to be a lot of ups and downs. And we're seeing this happening as we speak, right, in the business. You see countries that we thought the pandemic was behind, especially in the Far East, that the pandemic is going back. In very local situations, but still impacting both the actual supply chain and also consumer perception, right?

We're seeing this here in the U.S., obviously, as we're all familiar with it. So first it was the Northeast, now it's other parts of the country that are being severely impacted by the infection, and that obviously impacts our organization because we operate within a community, right? And obviously, the number of impacted associates in our business is a consequence of the community infection. So that puts a lot of pressure on our supply chain as well.

So hopefully, that gives you a sense of the different variables. And the fact that this is going to be a roller coaster, if you want, going forward, I think we're getting much better at managing our supply chain within this complexity. We're hiring more people. We're training more people. We're making sure that we can maintain the supply chain in any circumstance. But still, it's pretty complex, as you can imagine.

Operator

Your next question comes from the line of Bryan Spillane of Bank of America.

Bryan Douglass Spillane - *BofA Merrill Lynch, Research Division - MD of Equity Research*

I hope everybody is doing well. So my question is just related to the COVID-related expenses in the quarter. And you were at $378 million for the quarter. And I think if I've got it right in the 10-Q, about $224 million of that was employee compensation expense. So I guess as we're trying to frame the size of the expense in the back half of the year, is $378 million a good run rate?

And as we're looking at the components of this expense, maybe if you could help us just walk through what we should be looking at as recurring for the next 3 or 4 quarters and what might fall off.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Hugh, you want to try out this one?

Hugh F. Johnston - *PepsiCo, Inc. - Vice Chairman, Executive VP & CFO*

Yes, happy to. Hey, Bryan. No. Bryan, that's not a good run rate going forward. The number going forward will be less than that. And it will still be substantial, but nowhere near that number.

If you break it into pieces, things like personal protective equipment, that's obviously going to continue. Things like sanitation, that's going to continue. The allowance for doubtful accounts on customers, obviously, is going to be variable depending on what we learn over time and how the customer base responds to the current environment. Frontline and employee costs will still be there, but that number should be moderated pretty significantly going forward.

So we're not kind of getting into piecemeal guidance, but that should give you a little bit of a sense as to the types of things that are going to be ongoing and the types of things that ought to diminish pretty significantly.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Yes. Bryan, the most important component, as you can imagine, or factor that impacts this is the number of infected employees that we have, right? And therefore, the guarantee number. I mean, the biggest factor is when you have an employee that is -- that's got the virus or supposed to have the virus, then we quarantine a lot of people. That's the #1 driver of cost. And obviously, that will depend on the evolution of the pandemic in different parts of the world. So right now, Hugh, I think mentioned the different components and how we're thinking about it. But obviously, if the pandemic goes up massively, then that cost will go up.

Operator

Your next question comes from the line of Andrea Teixeira of JPMorgan.

Andrea Faria Teixeira - *JPMorgan Chase & Co, Research Division - MD*

I hope you're doing well. And I understand that this is not a straight line. And you comment that, obviously, the emerging markets is the main question mark. But could you help us understand how you left the second quarter in terms of cadence on the on-premises and convenience and gas? And so I'm trying -- just trying to bridge the low single digits in the 3 quarters that you guided for.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Andrea, yes. Listen, just to give you a sense of how the different components I was referring to earlier impact the different channels. Obviously, mobility has a very direct correlation with small store sales, right? And in the U.S., it's convenience stores; around the world, it's other channels that play that same role. But we see a big correlation between mobility and convenience store or on-premise -- sorry, small channel performance. Obviously, as we went through the quarter, April was very low consumption in that channel. Second half of May, June was an improvement, substantial improvement in that channel.

The away-from-home channel is much more complex, right? There's a lot of different need states that consumers are going after there. And so there, we saw also an improvement overall throughout the quarter, but still substantially below last year. I mean, like a big number below last year. And also different components of the channel with different levels of performance. So you see channels like transportation still very low, hospitality is still very low, universities closed. You saw restaurants coming back, especially more informal type of restaurants coming back, and more formal restaurants less so. So you see different performances, Andrea, across the different channels.

In terms of geography, China came back pretty quickly, I would say, almost in growth in the last part of the quarter. You saw Europe slower, the comeback of the -- both the kind of the small store channel and the away-from-home channel in Europe was a bit slower. We're seeing it better lately as people are starting to move around Europe and going on vacation to some areas in the South of Europe. So let's see how it evolves now. Obviously, there's less people moving around Europe compared to other years, but it's improved.

In the U.S., we saw an improvement, as I said, in the -- in May, June, in especially everything that had to do with smaller channels. Now let's see how this latest news in the evolution of the pandemic in the South and the West of the country impacts those channels and the decisions that regulators take in terms of protecting the overall community, right?

So that probably gives you a sense of how this is impacting. As we see the pandemic evolving now into Africa, South America, parts of the Middle East, India, we're seeing, obviously, an impact in the traffic in stores, and that drives the business. Now so it's still very fluid. Overall, it's an improvement versus the April time frame, for sure, and that's why we're guiding to a small growth in the Q3.

Operator

Your next question comes from the line of Kevin Grundy of Jefferies.

Kevin Michael Grundy - *Jefferies LLC, Research Division - Senior VP & Equity Analyst*

I hope that you're doing well. Ramon, I had a strategy-related question for you specifically around market share. Because it certainly seems to be an area of greater emphasis under your leadership, and if I'm not mistaken, also taking on a more prominent role in management incentive structure as well. So with that as context, is that a fair characterization? Number one.

If so, how do you drive that behavior? How do you intend to prioritize innovation and premiumization and mix to support market share initiatives? And how do you balance that with the potential risk that this push on market share does not devolve into more promotional pricing? Like particularly North America carbonated soft drinks, where the industry's gotten away from that behavior now for a number of years.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Thank you, Kevin, and that's a good -- it's a very good question. Yes. Listen, the share of market is being central to our strategy, and it will continue so, right? It has been, during the pandemic, one of the key principles that we have set for ourselves that we're going to try to improve market share.

Obviously, we are trying to develop our market share position in a sustainable way. So it's more related to the strength of our supply chain, the strength of our go-to-market execution, our ability to innovate faster into spaces that we see consumer value, our customer relationships. Those elements that we think are sustainable, the part of our brands, obviously. And you saw us making a lot of investments in '19, both in capacity and infrastructure, in stronger brands. We innovated into new spaces. That's helping us. That's helping us navigate better the current situation, and we'll continue to do so.

There are some spaces in the market that are -- I think will determine the share of market of the future. For example, I think e-commerce, if you see the growth of e-commerce, it is going to be quite strategic, I think. Whoever wins in e-commerce now and is able to capture those families that are trying this e-grocery service for the first time, I think, is going to win those families in the future. So we're investing heavily in trying to be the first in that channel and trying to -- and again, the investments that we made in the last few years, last year in particular, are helping us both from the data availability, the agility of our infrastructure to supply those channels, et cetera. So e-commerce is a key area where we think we can gain market share.

Second is the strength of our DSD system and our ability to service the stores directly, I think is a capability that is quite unique. And it gives us the advantage to keep the supply chain going in spite of all the challenges we're all facing. So that's also an area where we plan to double down. That improves our execution in store and the inventory in store. And that is also a sustainable advantage.

The third one is brands. And we have -- we're seeing consumers going back to brands that they trust. And we have quite a lot in many markets that consumers trust. There's big brands that have been around for some time. We've modernized them. We've kept them relevant to the consumer.

And then we're seeing spaces, like healthier parts of the consumer demand, where we have a lot of beautiful brands as well. And we're investing in those brands, either the Zero propositions in beverages, both Pepsi, Mountain Dew, Gatorade, we're investing a lot in those parts of the portfolio, and they keep growing. And also in snacks with brands like Off the Eaten Path or Smartfood or the all the Simply range or PopCorners or whatever. So there's a lot of spaces where we think that if we invest in those spaces, we're going to capture market share for the future.

The other one we're investing very substantial amounts, and it's working very well for us is SodaStream, right? SodaStream is a beautiful business for this situation we're living today. So we -- consumers don't have to leave their houses. They have perfect choices. We're putting our Pepsi brands in the SodaStream model in Europe, and it's working very well. We're investing in those.

So it's sustainable, long-term market share across multiple parts of the value chain that I think is going to give us a stronger -- is going to make us a stronger company going forward. So that's how we're thinking about share of market and sustainable share of market.

Operator

Your next question comes from the line of Bonnie Herzog of Goldman Sachs.

Bonnie Lee Herzog - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I had a question on your price/mix of 1.5% in the quarter, which was better than expected, especially for PBNA, where your price/mix was up 3%. So hoping you could drill down on some of the key drivers of this. I guess I'm trying to understand the strength in your price/mix given the negative channel mix shift and then I assume negative packaging mix. So is the strong price/mix in PBNA a function of lower promos in the quarter? And then really, how sustainable is this positive price/mix going forward, especially in this environment?

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Hugh, you want a go at this?

Hugh F. Johnston - *PepsiCo, Inc. - Vice Chairman, Executive VP & CFO*

Sure. Happy to, Ramon. Yes, price/mix at 1.5% for the company. Obviously, that's a complicated number because it's global and sort of incorporates almost everything.

Going a little bit deeper on PBNA. I think the primary factors were around less promotional depth than what we had seen in the past. So I think frequency is pretty similar, but the depth wasn't quite there. Obviously, supply can -- supply chains were a bit constrained in that regard, so it didn't make sense to go as deep. So I think that's the biggest factor.

Operator

Your next question comes from the line of Vivien Azer of Cowen.

Vivien Nicole Azer - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Ramon, I appreciate your commentary around investing behind emerging brands and relevant brands like SodaStream. Just hoping for either you or Hugh to comment on the reduction in nonessential advertising and really just reconciling that. It seems like perhaps the COVID recovery is taking longer than perhaps we would have anticipated when you reported earnings a quarter ago. So just curious to hear how you're thinking about that line item.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Advertising is a key component of our strategy and -- Vivien, and it will continue. We're still think that it's critical that we continue to use that lever to drive penetration of the brands and trial and just the image of the brands. So that is -- hasn't changed at all.

There has been a bit of an adjustment, especially in some markets early on in the quarter, because the truth is that the consumer habits changed a lot and we modified some of the A&M decisions. We also have become a bit more selective about the type of A&M that we're doing. And some of the activities that had lower ROI, we're stopping them, and we're putting more money against the initiatives that had more return on investment.

So I think we are -- we become better. And sometimes, a crisis helps to be more selective and to be more impactful and to kind of generate internal momentum against simplification and against focus, against fewer and bigger. And that's what we're trying to do. It's -- as you see from our results, it is working quite well.

Obviously, balance of the year, we continue to invest as we see the consumers moving around and demand for our products starting to be a bit higher. Yes, we'll keep investing. And again, not trying to lose that focus on fewer and bigger and trying to minimize the lower-ROI initiatives that sometimes we have in what is a very large business. So that's how we're thinking about A&M.

Hugh, I don't know if there's anything else from your side.

Hugh F. Johnston - *PepsiCo, Inc. - Vice Chairman, Executive VP & CFO*

Yes. The one thing I wanted to add as well, Ramon, is, Vivien, as we've talked about being stronger, part of that has been building some more capability to do A&M in-house. It's got a couple of benefits. One, it improves our speed; and number two, it has proven to be more efficient over time. So we can actually get same or more value for less money, which is obviously a terrific outcome for the company.

Operator

Your next question comes from the line of Lauren Lieberman of Barclays.

Lauren Rae Lieberman - *Barclays Bank PLC, Research Division - MD & Senior Research Analyst*

Great. I felt like in the prepared remarks, that the tone around kind of cost control and reinvestment was maybe a little bit different than it was 3 months ago. I'd describe it maybe as a little bit more measured. Where last quarter, you were talking about staying on the attack. Of course, still a strong criteria for ROI. And this quarter, we're talking about 0-based mindset, earning your budget.

So I guess by no stretch do I think that you didn't anticipate that the environment was going to be rough. I think that was very clear 3 months ago, and it's remained as such. But what is it that's really changing your thinking in your approach then versus now?

Yes. I just -- it did feel a bit different. Still very proactive, but sort of from a different stance.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Yes. Good, Lauren. The idea -- the concept of holistic cost management that we've put early on, I mean, it was early last year as one of the principles of how we would get stronger, it's a capability we've been, I would say, investing and focusing everybody around the company in this concept of holistic cost management. Which basically, it is the concept that you're referring to, which is you earn your budget every year. And we're trying to be much more granular around composition of the budget and what really is required now going forward versus what it was required, let's say, last year or 2 years ago. And going through that process of rethinking the budget every year and reallocating costs against what's going to give us the best return in the year and going forward.

So that capability is there. We're emphasizing it more because, obviously, what we're seeing is that there is a -- it's a challenging time. We're having to put $500 million of cost in COVID-related expenses. We will have to put some more going forward. So we have to find ways to fund that, and we have to find ways to continue to invest in our brands and our commercial activities to keep growing and gaining market share. So we have to be super selective on where do we put the money in every single line of the P&L.

So we're emphasizing that from the position that every cent has to work for the growth drivers of the company. So that is the principle that we're -- that is being adopted across the organization in every single market.

On the other side, we're seeing that, potentially, as unemployment goes up in several parts of the world, I think companies will have to be much more cautious about, obviously, the resources that we use and how do we use those resources. So I think this capability is going to come very helpful for us. And that's what we're talking about it in the sense of let's be very diligent in how we look at every single line of our budget and how would we reallocate those monies into the highest return on investment growth drivers.

And with that, I think we'll be successful in gaining share of market and driving growth and hopefully flowing that growth back into profits for the sustainability of the company.

Operator

Your next question comes from the line of Laurent Grandet of Guggenheim.

Laurent Daniel Grandet - *Guggenheim Securities, LLC, Research Division - Senior Analyst and MD of the Consumer & Retail Team*

And first, congratulation on the different, very specific initiatives you are taking to address Black Live Matters.

Like to focus my question on the energy category. In the -- in your prior remarks, you mentioned the Bang business was already almost fully transferred into your system. That was much quicker than most expected, so that's great. Could you please tell us what was the retailers' reaction to the push you are making in the energy category and what they expect from PepsiCo?

And also regarding ROCKSTAR specifically. How long do you think it would take to reenergize the brand?

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Yes. Laurent, yes, good question. Listen, yes, we're almost completed with the integration of the Bang brand into our selling systems. It's been a complex process because Bang had between 250, 300 distributors across the country. So as you can imagine, the details of that transition has been quite exhausting for Kirk and the beverage team, but they've done a great job of integrating that brand. And also the same with integrating ROCKSTAR in parts of the country that we didn't distribute the brand in the past. So that is -- I would say by the end of July, that will be almost complete and then we're ready to go.

From the customer relationship point of view, I think the customers see us as a very good partner that can bring insight, that can bring activation to the brands, that can bring better store execution, a lot of drivers that we know we can deliver and will drive growth for the category. So I would say the reception from our retail partners has been very positive. And early signals of it is that they're -- we're getting support and that we're executing with good quality.

And it's -- the fact that we have now a full portfolio that has Bang, ROCKSTAR and some of the Mountain Dew brands as an energy offer, it is a positive development for us versus having smaller brands. So we're seeing positive signals. And as we said last call in April, this is very strategic for us. We continue to focus on the 3 components of the strategy, driving, revitalizing ROCKSTAR.

And you will see some news coming out of ROCKSTAR soon, both on the advertising front and the packaging front, reformulation; integrating Bang into our business. And there's distribution opportunities and velocity opportunities in some parts of the country. And then moving Dew with more intentionality into spaces of energy that are not well covered, we think, today and that we can do a better job. Obviously, we continue to be very focused on Starbucks. Starbucks is a critical part of our energy strategy, and Triple Shot, Double Shot are -- is booming, and even more now with people at home.

So we're seeing all those components working for us in the future. We're very optimistic about this part of the business. And certainly, there's a lot of energy in our teams to get it done. And the team is doing a fantastic job, by the way.

Operator

Your next question comes from the line of Rob Ottenstein of Evercore.

Robert Edward Ottenstein - *Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Beverages Research & Fundamental Research Analyst*

Great. So wondering if you could talk a little bit about how your dialogue with retailers has evolved from March through June, July, how that's changed. Maybe also touch on the various things that you are doing to help retailers get through this.

And where things are in terms of shelf sets. A lot of the -- or most of the spring resets never really happened. When do you expect that to happen? And how you look positioned for those?

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Great. Good question, Robert. Listen, in our principles, and as we started the pandemic, taking care of our associates was priority #1 and taking care of our customers was priority #2, similar to #1. So I think that was the focus of the company, trying to even elevate even more the partnership with our -- with all our customers across any country around the world. And so that is a focus of the teams. I think we've been agile. We've been closer to our partners. We've been transparent with our supply chain challenges in some cases.

But I would say, in general, we're getting very positive comments from our partners on how we are talking to them, helping them to stay in stock and on time, driving business for both and evolving for the future of demand, especially around the space of e-commerce that I mentioned earlier, that is clearly growing at a very fast pace, faster than we had all forecasted about 0.5 year ago. So that's the dynamic.

We've made some choices in our supply chain to -- we've reduced some of the tail of our portfolio. We've discussed that with our partners, retail partners. And we both agreed that it's probably the best thing to do, to eliminate the less -- let's say, the smaller SKUs in the portfolio to maximize the best-selling SKUs and be in stock. As I said earlier, our DSD system, I think, is a fundamental advantage in the way we're able to service our customers. And I think they appreciate that, that we've made the effort, adjusting delivery schedules and increasing delivery schedules to make sure that we keep our brands in stock and we help, obviously, our partners.

So that is the level of the commitment we have with our partners. And I think the dialogue is in a very good space. And I think this situation will give us a strategic relationship with our partners that I think we had in the past, but it's probably at a higher level today.

Operator

Your next question comes from the line of Steve Powers of Deutsche Bank.

Stephen Robert R. Powers - *Deutsche Bank AG, Research Division - Research Analyst*

Yes. Great. So I know you sped up your R&D processes considerably over the course of time. But as we think about today's consumer behavior relative to just a few months ago and the difficulty of predicting where we'll be in the quarters ahead, how is that impacting how your teams are thinking about new plans and product introductions, even looking out to 2021? Because I think those plans might differ in a world where we're at home versus in a world where we're on the move.

And I guess is there a way to think about that? Or is it that your cycle times on new products at this point are such that you feel like you can keep pace with the change that we're all going through right now?

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Listen, I think we have improved a lot, as you mentioned. We segmented our innovation processes in different quick-cycle innovations, more lift and shift, more strategic innovation that takes longer. So we have a good segmentation of processes across the company and ways of investing and dealing with innovation through different stage, case, approvals and everything related to the size and the velocity that we want from each type of innovation.

The truth is that we're never satisfied enough, right? I mean, so the sense of urgency in anything we do is going up. And I think we have improving innovation and we want to improve even more. So from that point of view, we'll continue to make the adjustments to some of the process required.

In terms of what you're saying, are consumers changing meaningfully some of their needs, and are we adopting quickly enough? I would say there are a few spaces where we're trying to move quickly, immunity being one, and we're seeing that consumers are looking for immunity more. Our juice business is booming, and we think that we can come up with other beverages and even snacks that go against that need.

Our snacks business are being part of meals. We're seeing that, more and more, consumers are cooking more at home. And that means that, obviously, brands like Quaker or some of our Quaker portfolio is being incorporated into meals. But also some of our snacks, like Tostitos, obviously Sabra, and some other brands are being used for meals, right? A Lay's or Ruffles. We're going to obviously move our advertising and our consumer support in terms of giving them recipes and helping them with solutions that kind of go incentivize that habit. So there's a marketing element to this. There's also an innovation element to this in terms of packaging or other solutions that we can help consumers move into that space.

So yes, we're moving quickly. We're never satisfied with our speed of our capabilities. And if you hear the conversations with our internal teams, speed is a key word and we're trying to get better at that. We're trying to be the -- as close as we can to a startup with the scale of a large company. So that is one of our aspirations. And I think it's going to be a long journey of improvement, but we're in the right direction.

Operator

Your final question comes from the line of Sean King of UBS.

Sean Roberts King - *UBS Investment Bank, Research Division - Equity Research Analyst of Beverages*

Hugh, you mentioned $3 billion in the full year e-com or roughly 5% of sales. I guess that doubled in North America in the quarter. How much of that is transitory due to the stay-at-home dynamics? Or can some of that continue?

Hugh F. Johnston - *PepsiCo, Inc. - Vice Chairman, Executive VP & CFO*

Yes. Sean, happy to get in on that one. A couple of things. One, just to be clear, that $3 billion number is a retail sales number. It's not a net revenue number for PepsiCo, so you've got to discount it for that.

Number two, that is the great question. Not clear at this point. I think a lot of that will be dependent on how much consumers or shoppers find that the experience is very good for them. Out-of-stocks, obviously, is always going to be a big question for them because if you get a lot of out-of-stocks, you have to go to the store anyway, which sort of defeats the purpose.

And then the other one is, to the degree that they're paying any kind of an up-charge, is, is it worth the money? So don't have a real good projection on that right now. We're prepared for it to stay large, and we can manage that well if it need be the case, both from an execution perspective as well as from a financial perspective. But not clear at this point.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to Ramon Laguarta for any closing remarks.

Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman & CEO*

Yes. Thank you, everyone, for joining us today. It's great to hear from everybody, and for the confidence you've placed in us with your investments. We hope you all stay safe and healthy. And we look forward to updating you as the year progresses. Thank you again, and have a great day.

Operator

Thank you for participating in PepsiCo's Second Quarter Earnings Question-and-Answer Session. You may now disconnect your lines, and have a wonderful day.