

WINSTON-SALEM JOURNAL *the source*

PepsiCo Transfers 260 Workers to IBM

Richard Craver/December 19, 2013



PepsiCo Inc.'s decision to expand its call-center presence in Winston-Salem in November 2010 was greeted with great fanfare and a combined pledge of \$800,000 in local and state incentives.

Fast forward three years, and the Pepsi Beverage expansion has taken a surprising workforce twist.

About 260 full-time employees – nearly one-fourth of the division's

PepsiCo announced in 2010 that it would expand its facility in Forsyth County by adding sales and service call center operations. Now the company has transferred 260 jobs to IBM.

1,110 local workforce – were transferred Nov. 15 to IBM as part of PepsiCo outsourcing certain financial-services operations under a seven-year contract.

PepsiCo also may have become another example of the limited impact of economic incentives since the company never signed the local and state contracts it sought so intently.

During the 2010 announcement, Gov. Bev Perdue provided a rare behind-the-scenes perspective on more than a year's worth of negotiations, including her personal conversations with PepsiCo's top executive, Indra Nooyi, to get PepsiCo to choose Winston-Salem over three other out-of-state company sites.

In the end, the PepsiCo division committed to creating 195 jobs, retaining 870 jobs and spending \$7.5 million on renovating local operations over three years in University Corporate Center at 1100 Reynolds Blvd. The center caters to vendors and retailers, not consumers.

“We were relentless with Pepsi. We wouldn’t let this one die,” Perdue said at that time. “This isn't just about jobs and an expanding call center. It's the fact that in these globally competitive times, they could have gone anywhere in the world, but they chose to one more time re-up their commitment to this city.”



The incentives “were more about playing defense with the Pepsi operations and not putting the community at risk of losing the existing jobs,” Winston-Salem Mayor Allen Joines said at the time. “It also was about not losing the community support from Pepsi as an employer and its employees.”

PepsiCo said in a statement Thursday that “transitioning these

Then-Gov. Bev Perdue with Dan Stempkowski, Pepsi's Vice President

shared services positions from PepsiCo to IBM was made with careful consideration. This transition will enable us to stay competitive and better meet the needs of our business. There has been no net impact on local employment.”

However, employees who declined the IBM work offer were let go, although they could apply for future PepsiCo job openings as external candidates.

In an internal memo obtained by the Winston-Salem Journal, PepsiCo told employees “individuals move with the work.” The new IBM employees continue to work in the center.

Joines said Thursday he was aware of the PepsiCo outsourcing move. “They told me it would not affect the local head count,” he said.

In a quarterly report to employees obtained by the Journal, the decision was explained as PepsiCo “learned many companies, including most of our competitors, have included outsourcing transaction processing as part of their strategies.” The explanation was provided by John Dieter, senior vice president for global financial shared services and transformation.

“By driving to more common processes globally over time, we will leverage PepsiCo’s global scale,” Dieter wrote. “Common processes will simplify our systems infrastructure and reduce operating and support costs, resulting in higher productivity. We will leverage an expert partner to bring tools and technology and expertise to PepsiCo”

Several new IBM employees expressed concern to the Journal that their jobs could be transferred again to offshore IBM facilities. They said they were told they would be taking a 10 percent pay cut, effective in January, and that any full-time staff that left employment would be replaced by contract employees.

The employees are not identified for fear their jobs might be compromised.

PepsiCo deferred comment on the IBM workforce to IBM.

IBM spokeswoman Trink Guarino said it is company policy not to discuss employee numbers “anytime, anywhere.”

“We are a global company with global sourcing options,” she said. “This agreement has just been reached and being sorted out.”

In the PepsiCo employee memo explain the outsourcing, it said “IBM determines workforce requirements based upon business needs. The company does not discuss layoffs prior to the time a final decision is made.”

Economic officials with Winston-Salem, Forsyth County and the N.C. Commerce Department confirmed Thursday that PepsiCo chose not to execute its end of the incentive contracts.

“The company declined the grant, and no money was ever dispersed,” Commerce spokesman Josh Ellis said.

Derwick Paige, assistant city manager, said “it has been some time since we last had communications with them as they attempted to work out some issues on their end.”

The subject of transferrable incentives came up locally in 2009 when Dell Inc. considered selling its computer assembly plants, including in Winston-Salem, to its third-party vendor Foxconn.

An answer on whether local and state incentive packages are transferrable wasn’t disclosed because Dell opted to close the local plant, with Foxconn obtaining the equipment to make Dell desktops in Mexico.

“At this point, we don’t have an executed incentive deal,” Paige said. “But if we did, we would need to review the change to determine if it impacted the agreement.”

John H. Boyd, a principal in The Boyd Co. Inc., a site-location consulting company in New Jersey, said two call-center trends have changed significantly in the past three years, “neither working in favor of Winston-Salem.”

“First, overall outsourcing is growing trend within the corporate world, both in and out of the call-center industry. Service bureaus, including big-name companies like IBM that have moved into the outsourcing space, specialize in the science of call center operations. They can do it cheaper than the client company and they relieve the client if increasingly burdensome human-resources responsibilities come from Obamacare.”

Boyd said bringing jobs back to the U.S. “is not a dominant trend” within the call-center sector.

“This contrasts with the manufacturing arena, where falling U.S. energy costs, skyrocketing factory wages in China and costly and over-extended supply chains are all strong currents helping to wash manufacturing jobs back to U.S. shores.”

By contrast, Boyd defined the outsourced PepsiCo jobs as “mid-level customer service functions” that IBM, with its global reach, can quickly and easily outsource anywhere around the world

“They are reasons enough to create a good deal of anxiety among the workers at Pepsi,” Boyd said.

“Given outsourcing on the horizon, it is not surprising that Pepsi did not pursue incentives linked to Winston-Salem job creation.”

A separate part of PepsiCo’s expansion involved Wake Forest – owner of the corporate center – arranging for more space there for PepsiCo. That resulted in BB&T Corp. moving operations, and about 150 employees, to other local facilities.

In December 2010, about a month after PepsiCo committed to the expansion, the Winston-Salem City Council approved by a 6-2 vote giving Wake Forest \$250,000 to help accommodate a projected \$1 million in moving and upgrading expenses.

Paige said Wake Forest had three incentive requirements: relocate Bellomy Research and obtain a five-year lease; up-fit the space for PepsiCo; and obtain and maintain a five-year lease with PepsiCo.

“They met all 3 conditions,” Paige said.

“However, if Pepsi leaves the space sooner than 5 years then Wake Forest could be subject to (incentive) clawbacks. If Pepsi, or another approved entity, retains the lease and continues operations, then Wake Forest would not be subject to the clawbacks because they would meet the conditions of the agreement.”