Reflection on the Coca-Cola bottling merger

Tatenda Zengeni

The merger between Coca-Cola Sabco's African bottling operations and SABMiller was recently approved by the COMESA Competition Commission, while it is still under review in some other countries such as South Africa. SABMiller is Coca-Cola's biggest bottler in Africa with operations in 15 African countries.[1] The merger involves SABMiller acquiring Coca-Cola Sabco's bottling operations in Ethiopia, Kenya and Uganda.[2] The bottling assets will be jointly housed in a new company called Coca-Cola Beverages Africa.

The merged entity will account for 40% of Coca-Cola's total volumes sold on the continent and will create the continent's biggest bottler of soft drinks.[3] This article highlights some of the likely competition concerns that arise from this merger taking into account the market structure of the beverage industry on the continent and lessons from the European Union.

Market structure and competition in the region

Coca-Cola and Pepsi dominate the soft drink market globally and in Africa.[4] Pepsi re-entered the Kenyan market in 2010 (after having exited the market in 1970) and has recently invested in a new bottling plant in Nairobi.[5] Its entry has offered competition to Coca-Cola where Pepsi is selling its 350ml bottle at the same price as Coca-Cola's 300ml.[6]

In most countries, competition is largely between the two firms, although in some countries such as Uganda there are a number of smaller producers in operation as well. In Uganda, the entry of three new competitors; Riham, Fizzy and Azam (a brand owned by Tanzanian privately-owned firm Bakhresa Group which began producing carbonated drinks in 2011), led to increased competition with Coca-Cola and Pepsi who had enjoyed a duopoly in the sector since 1996 after the collapse of Creeps.[7] Competition led to price wars in the sector as companies competed for a share of the market.[8]

The Ethiopian market has seen large investment by the two leading multinational companies through their investment companies, East African Bottlers and Mahu Soft Drinks Industry, owned by Coca-Cola and Pepsi, respectively.[9] In general, the increase in investment in Africa is as a result of increasing incomes and a rising middle class in the continent, which is expected to boost consumption of soft drinks.[10] The consolidation of Coca-Cola's business in Africa can be viewed as an effort to fight increasing competition from the company's long-time competitor, Pepsi, and other new entrants in some domestic markets. The merger is particularly important given the nature of the soft drinks market which exhibits significant economies of scale in bottling and, importantly, in distribution, as explored below.

Competition in beverage markets

The beverage industry has unique characteristics which can raise barriers to entry for new firms. Soft drink manufacturing involves three stages. First in the chain are syrup producers who produce the syrup that is later used by bottlers. The bottlers mix the syrup with other ingredients and pack the product into different sizes to suit consumer needs. Once bottled, the soft drinks may be distributed through a variety of different channels to the final consumer.[11] Some of the drinks are sold to middlemen such as wholesalers and some are sold directly to the consumer.[12]

When considering the soft drink value chain above, competition concerns most often arise in the distribution and retail legs of the chain. This flows from the fact that dominant producers such as Coca-Cola and Pepsi, who have invested heavily in marketing and distributing their product, generally exclude competitors from using their distribution networks and the in-store coolers and fridges in which their drinks are displayed. In fact, a number of distribution cases in the soft drinks market have been investigated in different jurisdictions including Mexico, Chile, and the European Union. In the European Union, Coca-Cola had exclusive agreements with distributors that directly prevented customers from being able to offer competing brands.[13] Moreover, competing suppliers could also be denied access to outlets by virtue of the effects of Coca-Cola's financing agreements and technical sales equipment arrangements on beverage coolers and fountain dispensers. The EU Commission entered into a commitment agreement with Coca-Cola in 2005 restricting certain exclusive agreements, tying practices and rebates between Coca-Cola and distributors and shops which included freeing up 20% of space in its coolers to competitors.[14]

The merger marks a huge step towards convergence in the beverages industry, given that SABMiller is also a major player in beer production and distribution in Africa and globally, in which there have been prominent competition investigations as well. For example, SABMiller was accused of exclusionary conduct involving independent (downstream) wholesalers/ distributors in South Africa, although they were found by the Competition Tribunal not to have contravened the Act.[15] In addition, the merging parties are potential rivals in each other's markets, as SABMiller already supplies non-alcoholic beverages such as Appletiser and could be a bottler for other soft drinks suppliers. Similarly, the Coca-Cola bottlers could be potential bottlers for beer rivals to SABMiller.

Conclusion

The nature of the beverage industry favours companies that have high capital outlay, established brand names and expansive distribution channels. This poses a threat to new entrants who do not have established brands and distribution networks, although these concerns may be pre-existing and as such not merger-specific. To the extent that distribution and marketing arrangements with retail and wholesale outlets will be applied by the merged entity in country markets throughout the continent, the decision to approve the transaction may have significant adverse consequences for rival manufacturers, including new entrants that may not have strong distribution systems of the incumbents. This is especially concerning if arrangements with the merged entity tie up large proportions of distribution capacity in individual country markets.

Notes

1. 'The Coca-Cola Company, SABMiller and Coca-Cola Sabco to form Coca-Cola beverages Africa' (27 November 2014). SABMiller Media Release.
2. COMESA (2015). 'Decision of the Sixteenth Meeting of the Committee of Initial Determination Regarding the Proposed Merger between Coca-Cola Beverages Africa and the Coca-Cola Sabco Proprietary Limited'.
3. Thomas, N. 'SABMiller agrees $3bn Coca-Cola bottling deal' (27 November 2015). *The Telegraph*.
4. Nair, A. and Selover, D. (2012). 'A study of competitive dynamics'. *Journal of Business Research*, Vol. 65, p. 355 -361.
5. Otini, R. 'Pepsi switches on Nairobi soft drinks production plant' (1 January 2013). *Business Daily.*
6. David, H. 'PepsiCo replaces Kenya chief in battle with Coke' (19 January 2014). *Business Daily.*
7. Ladu, I., M. 'The fights in Uganda's soda business' (24 February 2015). *Daily Monitor*; and Bakhresa Group website.
8. Kula Bako, F. 'Price war among soft drinks manufacturers hurts profits' (24 April 2014). *Daily Monitor.*
9. Zhuwakinyu, J. 'Coca-Cola's $60m Ethiopian plant to quadruple production' (7 December 2012). *Engineering News.*
10. See note 1.
11. Changlab Solutions. (2012). 'Breaking down the chain: A guide to the soft drink industry'.
12. See note 10.
13. European Union. (2005). 'Competition: Commission makes commitments from Coca-Cola legally binding, increasing consumer choice'.
14. See note 13.
15. Kaziboni, L. 'SA Tribunal finds no case against SAB distribution' (August 2014). *CCRED Quarterly Competition Review*.

Zambia CCPC issues new merger guidelines

Mohlahlego Cornelia Matumba

The Competition and Consumer Protection Commission (CCPC) of Zambia released its guidelines for merger regulation in August 2015. This is important for providing clarity on the process for merger regulation in Zambia and provide the commission and stakeholders with a structured and transparent framework for these assessments.[1]

Key features of the guidelines relate to what constitutes a notifiable merger wherein the Commission considers change of control, local nexus and threshold.

- Mergers that occur outside of Zambia but have a local connection (local nexus) either through their presence in the Zambian markets through export sales or presence of their subsidiaries, constitute a notifiable merger.[2]
- Threshold for notification of a merger is a combined annual turnover or assets of ZMK 15 000 000.
- The notification fee is set at 0.1% of the parties' combined turnover or assets, whichever is higher.

Notes

1. Mbale, R. 'CCPC finalises guidelines for merger regulation' (20 August 2015). *Zambia Daily Mail*.
2. Competition and Consumer Protection Commission (CCPC). (2015). CCPC guidelines for Merger Regulations.