CCRED
CENTRE FOR COMPETITION, REGULATION AND ECONOMIC DEVELOPMENT

MCom Working Paper[1]

THE COCA-COLA COMPANY/COCA-COLA BEVERAGES AFRICA MERGER – A CASE FOR REGIONAL COMPETITION ENFORCEMENT

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Abstract

The East African Community (EAC) has been characterised as one of the leading regional economic communities (RECs) in sub-Saharan Africa, making great strides towards integrating the economies of its Partner States. With increased integration, it has become more important for competition authorities to consider mergers and competition dynamics within the context of the region rather than at the national level only. The impacts of mergers in a REC depend on the regional scope of the activities of the firms and the factors that may impact on whether the merger may have an anticompetitive effect. This paper carries out an in depth analysis of the Coca-Cola Company/Coca-Cola Beverages Africa merger which had both vertical and horizontal dimensions across countries in the EAC. The paper finds that the merger raised potential competition concerns in the bottling segment of the value chain. This segment not only needed to be defined as a relevant product market across the region, but potentially afforded the merging parties the ability to cause competitive harm through both unilateral and coordinated effects. Using this case study, the paper considers the role of merger evaluation by the newly established East African Competition Authority (EACA) and the importance of competitive markets to realize the benefits of regional integration.

JEL Codes: L40, L41, L49

Keywords: Competition, mergers, regulation, East African Community

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[1] This working paper was completed as part of the requirements for the MCom Competition and Economic Regulation.

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1. Introduction

Competition law governs three basic elements, namely anticompetitive agreements, anticompetitive mergers and abuse of market power. Anticompetitive arrangements falling under these three pillars can transcend national borders and require a regional perspective in order to investigate and evaluate accordingly. As firms begin to grow and achieve scale economies, they typically seek to invest in supplying customers in different geographic markets across national borders. The shift towards globalization and an acute focus on regional integration over the past several decades has been instrumental for firms across the world in moving to supply customers in various regions. Taking a regional view of firm activity is important because of this massive shift in firm behavior, compounded by the fact that competitive dynamics also depend on various issues such as location of production, location of consumption and logistics infrastructure. Taken together, these issues have an impact on the reach of firms and the degree to which market power can be exercised (Roberts, 2016).

Scrutiny of international mergers and acquisitions is therefore required, and this should include the international reach of companies involved (Fox, 2015). This applies to the East African region as it does to other regions of the world. Such scrutiny would allow more effective evaluation of global mergers that impact on the region, but will also be influential in identifying mergers that are strictly regional in nature which on the surface appear not to raise competition concerns at a national level but do so when regional competition is taken into account.

Tasked to promote and protect fair trade as well as to promote consumer welfare in the East African Community (EAC), the East African Competition Authority (EACA) is in the early stages of its establishment and has commenced initial operations. Its creation is an important development given that globalization, regional integration and cross-border business activity have come with an increasing number of cross-border mergers and acquisitions used as a mode of entry into developing regions such as East Africa (Agbloyor, 2012). Mergers and acquisitions have thus become a major part of foreign direct investment (FDI). Coupled with the EAC's positive macroeconomic environment over the years (AfDB, 2019), the region continues to be attractive for FDI through greenfield investments and mergers and acquisitions, warranting of regional evaluation for regional effects.

This paper uses the Coca-Cola Company/Coca-Cola Beverages Africa merger of 2017 as a case study, assessing the extent to which the merger was regional in scope and thus requiring regional evaluation by the EACA. The analysis finds that there are specific nuances in the merger that warranted regional assessment. Firstly, the parties to the merger held relatively dominant positions at a regional level both prior to and after the merger. While this does not in itself warrant the merger to be problematic, the analysis finds that the nature of the beverage value chain meant that high concentration levels in specific value chain segments were potentially problematic as they afforded power to already dominant players to exclude smaller rivals in multiple segments of the value chain. Secondly, the analysis shows that the bottling segment of the value chain needed to be explicitly defined as a relevant product market at a regional level. The true essence of the merger was that it was a merger in the beverage bottling industry and not in the wider market for the manufacturing of soft drinks. As the analysis will show, the bottling segment is where competition lies within the beverage market, as it is the first step in getting beverages to market.

The in depth assessment of the case is done with reference to the regional operations of the merging parties, with a specific focus on vertical and horizontal dynamics in order to illustrate the kind of analysis that is required to make an appropriate regional evaluation. As the discussion will highlight, the vertical and horizontal dynamics become particularly prominent given the global reach of the parties to the merger, with the regional reach of the parties then being a byproduct of their global presence. Therefore, context matters.

The case provides an illustrative example that the structure and reach of firms play a pivotal role in the dynamics of value chains and how they are governed, as well as on the extent to which market power can be explicitly or implicitly exerted within and across countries. Furthermore, the case shows that competitive rivalry is necessary for innovation and lower prices, but the playing field needs to be levelled in order for entrants and smaller rivals to make and realize investments, build capabilities and participate effectively.

2. Competition policy and regional integration in East Africa

In Africa there has been particular interest over the past three decades in the competition – economic development interface. Fox and Bakhoum (2019) explore this idea and emphasizes that competition law must be part of a major development agenda, used as a tool to facilitate development rather than to protect producers and local champions.

The benefits of regional integration are argued to take various forms, including the removal of tariff and non-tariff barriers, overcoming the legacy of colonial borders, building capabilities and the formation of regional value chains (Roberts, Simbanegavi and Vilakazi, 2017). However, these initiatives depend largely on the decisions of companies to increase productive capacity along with other long-term investment decisions across the region in question (Roberts, 2016). So far, it has been put forth that the decision by firms to supply customers across borders has been facilitated by globalization and regional integration. However, these decisions are also in part dependent on whether markets are competitive.

Developing countries typically have high concentration levels (particularly in key industries) and bigger competition problems than large industrialized economies (Gal, 2003). This is where an effective regional competition regime becomes important, in order to open up markets for investment, innovation and more efficient firms rather than a few large firms dominating an industry. Regional integration provides scope for greater competitive rivalry in a larger market, but this cannot be realized if smaller economies become undermined by the largest regional economy (Roberts, 2016). This lies at the heart of regional integration and is an area in which competition policy can be a useful tool in upholding the interests of RECs by considering various competition issues in member states that affect competition and welfare at a regional level.

The EAC is a REC of six partner states, namely; Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. One of the main objectives of the block is to widen and deepen cooperation between partner states for their mutual benefit, including issues related to competition and consumer protection. Following the competition provisions contained in Article 21 of the Protocol on Establishment of the EAC Customs Union, the EACA was set up in 2016 under the Competition Act of 2006. The EACA is therefore mandated to enforce the Competition Act by promoting and protecting fair trade and providing for consumer welfare in the Community.

The objectives of the EAC competition policy are, among other things, to enhance competitiveness within the EAC and to create an environment conducive for investment. The EAC competition policy covers all three elements of competition mentioned above, namely: anticompetitive agreements, mergers and abuse of market power. In many instances, mergers are good for competition and consumers as they allow for firms to reduce costs and gain efficiencies, which can, in turn, drive investment and innovation. However, like in many other jurisdictions, the EAC competition law recognizes that mergers can lead to an increase in market concentration, which can harm competition or consumers and even trigger other anticompetitive behavior. For these reasons, they can either be blocked or approved with conditions.

Under part 4 of the EAC Competition Act, section 11(1) stipulates the conditions under which a merger must be notified to the Authority. It requires that any person intending to execute a merger or acquisition must notify the Authority. Section 12(2) goes on to state that the Authority shall notify the person concerned in 11(1) of its decision within 45 days. If the Authority has not communicated its decision within this period, the merger or acquisition may be implemented.

Section 13 of the Act sets out the economic standard and factors that the Authority must apply in deciding whether to prohibit or attach conditions to a merger. The standard is that a merger can be prohibited or have conditions imposed if it leads to the creation or strengthening of a dominant position that substantially lessens competition in the relevant markets. Section 13(2) sets out the relevant competitive factors to be considered in determining whether a dominant position is created or strengthened, and these include the competitive structure of the markets, the undertakings in the affected markets, competitors and alternatives available and any procompetitive effects that may outweigh the merger's harmful effects on competition. However, merger thresholds are not given. This makes it difficult to ascertain which mergers must be notified to the Authority and assessed regionally.

While the EAC Competition Act was developed and adopted over a decade ago, with regulations being issued in 2010, the authority is at a nascent stage of development. Like many other newly established competition authorities, it faces a broad range of challenges including limited human and financial resources as well as a lack of awareness of competition law and enforcement among the public and various key stakeholders.

Given the role that competition law and policy can play towards achieving growth and regional integration, there is an incentive for the EAC to allocate resources for the efficient and effective operationalization of the EACA. One avenue of achieving this is through an effective merger control regime that effectively addresses issues around market structure and optimal levels of competition at a regional level in relevant markets. This then means that the EAC Competition Act needs to be clear about which mergers are notifiable to the EACA, through clear merger thresholds.

3. The Coca-Cola Company/Coca-Cola Beverages Africa merger

The merger between The Coca-Cola Company (TCCC) and Coca-Cola Beverages Africa (CCBA) was notified to relevant competition authorities across Africa between the year 2016 and 2017. The case involved the consolidation of bottling activities between TCCC, Gutsche Family Investments (GFI) and SABMiller (now part of AB InBev), to create a new entity: CCBA. In the proposed merger, the merging parties stipulated that ownership in CCBA would be divided

between TCCC, GFI and SABMiller according to 15%, 35% and 50% respectively. CCBA's operations in East Africa fall under its subsidiary, Coca-Cola Beverages East Africa (CCBEA).

In the analysis of the merger, this paper does not cover a market definition exercise, and therefore the relevant product markets are adopted from those defined by the COMESA Competition Commission (CCC), namely: the carbonated soft drinks (CSDs) market and beer beverages market.[2] As the discussion below will emphasize, the bottling level of production is particularly important in the beverages industry. Bottling capabilities typically allow for a manufacturer to bottle any beverage. That is, there is no significant difference in expertise needed between bottling CSDs and beer. The significance this holds is that market definition at this level of the value chain potentially cuts across CSDs and beer, meaning they can be considered as competing products. As a result, manufacturers of CSDs and beer can be considered direct competitors at the bottling level of the value chain despite not imposing direct competition on each other at the retail level. Therefore, the bottling level of the beverages value chain is where potential competition concerns can be raised.

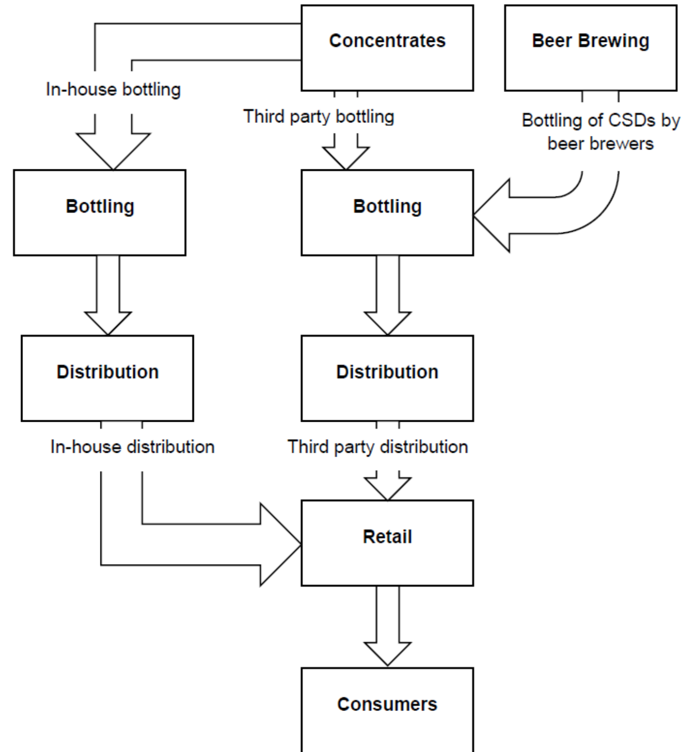
This section therefore begins by briefly describing the beverages value chain, mapping out the various similarities and differences between the CSDs market and the beer market. This is then followed by the pre-merger market situation, the post-merger market situation as well as theories of harm and potential competition effects.

3.1 **The beverage value chain**

There are various segments within the beverages value chain for both CSDs and beer (**Figure 1**). In both markets, the owner of the beverage will initially manufacture beverage concentrates which in many instances are trademarked. In some cases, beverage owners (in this case the TCCC and SABMiller) will then use the concentrates to manufacture beverages and carry out in-house bottling activities, upon which these will be distributed to various geographic territories to services customers and retail outlets. Over the past 30 years, however, the value chain has rapidly evolved to meet changing consumer trends, adapt to changes in technology and for manufacturers to remain competitive through cutting costs. Some of these changes in trends have included customers electing for off-site consumption and growth in third party logistics services. Heavy cost bases such as for warehousing, labour and transport for manufacturers meant it was more difficult for them to remain competitive at the retail level of the value chain. This has led to significant growth in the use of third party services particularly in relation to bottling and distribution.[3]

[2] https://www.comesacompetition.org/wp-content/uploads/2014/10/CID-Decision-in-the-merger-involving-tccc.pdf
[3] https://www.springtideprocurement.com/wp-content/uploads/2015/09/White-Paper-Evolution-of-Brewery-Supply-Chain.pdf

Figure 1: The classic beverages value chain for beer and CSDs



Source: Compiled by author

Different models and channels of distribution have can exist within the beverages market (Williams and Goldsworthy, 2012). Bottling and distribution models typically vary according to the most cost effective and economic operation available to a manufacturer. This is highly dependent on the size of the manufacturer. Smaller producers will typically carry out bottling and distribution services in-house, while larger firms with recognized brands at the retail level have gravitated to outsourcing bottling and distribution.[4] As will be shown through the case study below, this has a significant bearing on the competitiveness of a brand. Bottling and distribution activities require large capital outlays, which can be a barrier to entry for smaller, newer beverage manufacturers. Importantly, this has meant that larger firms will typically have easier access to third party bottling and distribution because of their scale and because of having more recognizable brand names for the consumer. Therefore, in addition to the potential for large third party distribution capacity being tied to larger firms, there are also advertising and marketing strategies that smaller rivals and entrants must contend with in order to become competitive. These issues will be discussed further below.

Distribution is again a crucial part of the value chain as it is what ensures that the beverage can be provided on the market. Supermarkets have increased their presence across sub-Saharan Africa and have opened up local and regional markets for beverages (Chisoro, Das Nair and Ziba, 2018), while pubs and authorized alcohol resellers have also increased, leading to wider

[4] https://www.springtideprocurement.com/wp-content/uploads/2015/09/White-Paper-Evolution-of-Brewery-Supply-Chain.pdf

distribution networks. However, while retail outlets for beverages have increased, in response to the changes in consumer behavior, it has been found that bottling and distribution segments of the value chain remain the biggest hurdle that new and existing beverage manufacturers in Africa must contend with (Standard Bank, 2019). In other words, this is where competition lies in the industry. This is mainly because, as opposed to the developed world, developing countries continue to face challenges of road infrastructure, terrain, reaching different retail segments and customer needs. These require distribution methods to be developed to distribute smaller amounts of product to a diversity of retail outlets including neighbourhood restaurants and bars, corner stores and one-person kiosks (Nelson et al., 2009).

TCCC provides a typical example of how the value chain has evolved. From initially carrying out bottling and distribution in the 1920's, TCCC moved to owning only 20% of bottling and distribution activities in Africa. TCCC uses a full range of distribution models, including supplying large retailers such as grocery stores, hotels, universities and other institutions using third party delivery trucks (Nelson et al., 2009). For a large portion of its retail customers (particularly in East Africa, where they are mostly small), a manual delivery approach is adopted, working with small-scale distributors to deliver products to small-scale retailers in densely populated urban areas (Nelson et al., 2009). Showing again that success and a competitive edge in this industry in the African context are therefore highly dependent on a firm's ability to reach consumers in even the most remote locations.

While the figure above illustrates the universal arrangement of beverage value chains, bottling and distribution arrangements in the beer market also vary in some instances. In some cases, manufacturers will still manufacture and bottle their beverages and only outsource the distribution level of the value chain. SABMiller typically employs this arrangement and has come to be known as Africa's largest bottler both for beer and CSDs (Klaaren and Sucker, 2020). SABMiller has been found to have agreements with appointed distributors who are allocated exclusive territories in which to distribute SABMiller alcoholic beverages, for which they receive a distribution fee (Competition Tribunal, 2007). Other firms also distribute these beverages but are not eligible to receive a fee or discount from SABMiller to perform this function (Competition Tribunal, 2007). This method is typically used across Africa.

It is important to draw out the issue around different types of bottling and distribution arrangements for the purposes of the TCCC/CCBA merger. It has been established that over time, TCCC has elected to leverage third party bottling and distribution agreements with minimal ownership over these activities. Conversely, we see that SABMiller has opted for a higher degree of ownership and control over bottling and distribution of its brands. In addition, SABMiller is also a third party bottler for other beverages including CSDs owned by TCCC. The fact that capabilities in the bottling and distribution segments (whether in-house or third party) of the beverage value chain are instrumental for success in the retail level, along with SABMiller's overlapping bottling interests in beer and CSDs are important. SABMiller's activity in the bottling and distribution levels of the value chain are what show that CSDs and beer are close competitors in these levels. As we will see below, this also needed to be considered in the market definition exercise and evaluation of the merger, at a regional level. This will be unpacked further in the analysis of theories of harm and competitive effects.

The subsections to follow map out the pre- and post-merger situations in order to show the changes that took place in the market following the merger. This is necessary in order to appreciate in what ways the merger changed competition dynamics in the market at a regional

level. The sections will also begin to show why it is necessary to understand the dynamics of the beverage value chain as described above, and also in relation to the region.

3.2 The pre-merger situation

The pre-merger situation is mapped out for non-alcoholic beverages and alcoholic beverages, focusing on the CSDs and beer markets specifically and the links to bottling and distribution.

3.2.1 Non-Alcoholic beverages

TCCC held a leading position in the manufacturing segment of the non-alcoholic beverage industry with a global market share of over 45%[5], making it the world's leading non-alcoholic beverage concentrate manufacturer. At a global level, other significant market players were Cott, PepsiCo., and Dr. Pepper Snapple (Nair and Selover, 2012).

Pre-merger, in East Africa, TCCC-branded beverages dominated the industry to a greater extent than globally, as significant competition was only being imposed by PepsiCo (Ang'wech, 2012). The non-alcoholic beverage industry across the east African region began to see the emergence of local manufacturers such including Kevian Kenya, MeTL of Tanzania and Azam of Tanzania from the early 2000s (**Table 1**). While the market was characterized by players of varying sizes, they did not impose a significant competitive challenge on TCCC brands in the CSDs market (Ang'wech, 2012).

Table 1: Main beverage manufacturers

Manufacturer	Country	Beverage segments
MeTL Group (A-One Products)	Tanzania	Bottled water, juice blends, CSDs, energy drinks
Bakhresa Group (Azam Beverages)	Tanzania	Bottled water, juice blends, CSDs
Aquamist	Kenya	Bottled water, juice blends, ice tea products
Hariss International (RIHAM)	Uganda	CSDs, bottled water, malt drinks, energy drinks and juice blends
Motisun Group (Sayona Drinks)	Tanzania	Bottled water, CSDs, juice blends
Kevian Kenya	Kenya	Bottled water, juice blends. energy drinks
Rwenzori Beverages	Uganda	Bottled water
PepsiCo	Kenya, Tanzania and Uganda	CSDs

Source: Compiled by author

TCCC's bottling operations were organized in such a way that there were TCCC authorized third party bottlers across Africa. With the exception of Coca-Cola Sabco Limited (Sabco) located in South Africa of which it has 20% ownership, TCCC did not have any ownership or control of

[5] https://www.grandviewresearch.com/industry-analysis/carbonated-beverages-market

authorized bottlers. Coca-Cola Sabco had bottling operations across seven Southern and East African countries, as well as five Asian countries.[6] The independent TCCC-authorized bottlers were located across the eastern region with the largest ones carrying out bottling and distribution activities in Kenya, Rwanda, Tanzania and Uganda (see **Table 2**).

Table 2: Main beverage bottlers in East Africa

Bottler	Country	Ownership before merger	Beverage
Equator Bottlers	Kenya	Kretose Investments	TCCC beverages
Almasi Beverages	Uganda	Centum Investments (53.8%)	TCCC beverages
Nairobi Bottlers	Kenya	Centum Investments (53.9%)	TCCC beverages
Crown Beverages	Kenya	SABMiller/ABI	TCCC beverages
Coastal Bottlers	Kenya	Coastal Bottlers	TCCC beverages and other beverages
Coca-Cola Kwanza	Tanzania	Coca-Cola SABCO	TCCC beverages
Nyanza Bottling Company	Tanzania	Coca-Cola SABCO	TCCC beverages
Century Bottling	Uganda	Coca-Cola SABCO	TCCC beverages
BRARIRWA	Rwanda	Heineken	TCCC beverages
BRARUDI	Burundi	Heineken	TCCC beverages
Rwenzori	Uganda	SABMiller/ABI	TCCC and SAB beverages
A-One Products and Bottlers	Tanzania	MeTL Group	MeTL Group beverages
Bonite Bottlers Limited	Tanzania	IPP Group of Companies	TCCC Beverages
Azam	Tanzania	Bakhresa Group	Bakhresa Group beverages
Aquamist	Kenya	Aquamist	Aquamist beverages
Riham	Uganda	Hariss International	Hariss International beverages
Sayona Drinks	Tanzania and Uganda	Motisun Group	Motisun Group beverages
Kevian Kenya	Kenya	Kevian Pure African Delights	Kevian Beverages
Crown Beverages Limited (CBL)	Uganda	Crown Beverages Limited (CBL)	Pepsi

[6] https://www.coca-colaafrica.com/coca-cola-in-africa/ourCompany-bottlingPartners/coca-cola-fortune

SBC Tanzania	Tanzania and Kenya	SBC Tanzania	Pepsi

Source: Compiled by author

We see the issue of overlapping bottling interest emerge again from the table above with both SABMiller and Heineken (a Dutch brewing company) being authorized third party distributors of TCCC beverages. In addition to being an authorized bottler for TCCC beverages, it has also been found that SABMiller also has bottling agreements with Castel Group, a global French alcoholic and non-alcoholic beverage manufacturing company. In 2015, SABMiller had a 20% interest in Castel Group's beverage interests[7].

Another noteworthy observation from the table above is that TCCC competitors aside from Pepsi all carry out their own bottling and distribution activates. Therefore, while TCCC is able to outsource these activities to large bottlers such as SABMilller and Heineken and do away with their associated costs, its competitors, who are relatively smaller and localized, had to internalize these costs. This is significant, given the large capital outlays needed for investments in bottling plants and distribution networks in addition to having to develop effective marketing strategies for buy in into their products.

From the above, two important points can be made. Firstly, that in the bottling segment of the beverage value chain is a market where CSDs and beer compete, shown through the ability of beer manufacturers to bottle CSDs. Secondly, that while TCCC saw moving away from control and ownership in bottling and distribution as a more cost effective strategy, other market players, particularly beer manufacturers, are likely to have perceived control and ownership in bottling as a way to be more competitive throughout the value chain. Importantly, concerns can then be raised as to whether potential large proportions of ownership in bottling by firms such as SABMiller pose potential exclusion issues regarding access to bottling services by smaller rivals of both TCCC and SABMiller.

TCCC's competitors listed above are also manufacturing conglomerates that were large-scale consumer goods manufacturers that built capability to branch into the non-alcoholic beverages market. For instance, MeTL, Bakhresa, Hariss International and Motisun all manufactured other FMCGs before establishing their beverage brands A-One, Azam, RIHAM and Sayona respectively. This activity started from as early as 2001[8], where the producers listed above began to penetrate the CSDs market at a national level. Therefore, the fact that these rivals were able to enter the beverages market does not explain away the issue of high barriers to entry in the industry. Nonetheless, entrants managed to penetrate the market through attempting to leverage changing consumer demands such as introducing polyethylene terephthalate (PET) packaging to appeal to off-site beverage consumption.

Hariss International, Kevian Kenya and Motisun were the first manufacturers to introduce PET packaging in Uganda, Kenya and Tanzania respectively[9], which had proved to be the 'secret' to market entry due to its cheaper price and enhancement of route-to-market strategies as opposed

[7] SABMiller 2015 annual report

[8] https://af.reuters.com/article/idAFKBN0NF0VC20150424

[9] https://www.rihamgroup.com/about/; http://www.sayona.co.tz/business.php; http://www.keviankenya.com/

to relatively expensive drink-on-the-spot returnable glass bottles.[10] For instance, in Uganda, Hariss International's Riham 320ml soda beverages in plastic bottles retailed at 1000 Shillings against Coca-Cola and Pepsi's 300ml returnable glass bottles also at 1000 Shillings[11]. In the Tanzanian non-alcoholic beverage industry, Godfrey (2016) showed that PET-packaged beverages contribute to ease of availability of beverages and in turn, contributed to consumer loyalty. These variables indicated that the entry of Bakhresa, Motisun and SBC into the Tanzanian market seemingly challenged TCCC, the market leader, in terms of consumer loyalty (Godfrey, 2016).

These events indicate that competitive pressure was building against TCCC. PET packaging was cost effective, which gave entrants the ability to competitively price CSDs against incumbent firms such as TCCC. Entrants therefore tried to find ways to overcome structural barriers by attempting to capture the growing middle class and rural communities in a regional block that was also growing. Incumbents such as TCCC were therefore arguably forced to rethink their bottling and distribution operations across Africa as a whole.

Increasing entries into the manufacturing segment of various countries coincided with the TCCC rethinking its distribution methods. This came with the introduction of Manual Distribution Centres, which were independently owned, low-cost manual operations created to service emerging urban retail markets where classic distribution models were not effective or efficient (Nelson et al., 2009; Saul, 2011). In this model, distribution is manual, and done through push carts or tricycles. This highlights that not only was the market being highly contested, but also that investments in bottling and distribution are where beverages companies compete.

Thus, prior to the merger, the non-alcoholic beverages market was characterized by entry activity in the manufacturing segment accompanied by price wars and strategies to capture market share. TCCC, however, still maintained an extensive distribution base that spanned across the region.

3.2.2 Alcoholic beverages

The involvement of SABMiller in the merger means that the beer beverages sector also needs to be considered due to the overlapping interests in bottling and distribution as highlighted above. I therefore focus on SABMiller as a beer manufacturer in particular, due to t being a party to the TCCC/CCBA merger. SABMiller is a multinational brewing company, and up until 2016 was the world's second largest brewer.[12] From 2016, SABMiller formed part of AB InBev, and from that merger became the world's largest beer brewer. At a global level, AB InBev, Castel, Diageo, Heineken and Carlsberg are the leading beer producers. These players also lead the African market.

These producers typically maintain dominance through strategic alliances across the continent (Das Nair and Kaziboni, 2014). For example, since 2001, Castel has held a 38% stake in SAB's African subsidiary, while SABMiller has a 20% stake in Castel's African operations (Das Nair and Kaziboni, 2014). This has been argued to be a way to increase investment opportunities. Importantly, these agreements come with pre-emptive rights over each other's African beverage

[10] https://www.ft.com/content/35fc182a-c6df-11e3-aa73-00144feabdc0
[11] https://www.monitor.co.ug/Business/Prosper/Price-war-among-soft-drinks-manufacturers-hurts-profits/688616-2296484-ncet4r/index.html
[12] https://www.competition.org.za/review/2014/11/7/the-beer-industry-in-africa-a-case-of-carving-out-geographic-markets

operations whereby each has first rights to buy each other's operations if put up for sale.[13] This has important implications for market power. Similarly, East African Breweries, a subsidiary of Diageo, traded 20% of their shares of its local subsidiary, Kenya Breweries, for a similar proportion in Tanzania Breweries, a subsidiary of SABMiller International (Das Nair and Kaziboni, 2014).

Table 3: Main beer brewers in East Africa

Brewer	Country	Ownership (majority)
Nile Breweries	Uganda	SABMiller/AB InBev
Tanzania Breweries	Tanzania	SABMiller/AB InBev
Kenya Breweries	Kenya	East African Breweries/Diageo
Uganda Breweries	Uganda	East African Breweries/Diageo
Serengeti Breweries	Tanzania	East African Breweries/Diageo
Parambot Breweries	Uganda	Parambot Group
Keroche Breweries	Kenya	Keroche Industries
Heineken	Kenya, Tanzania, Uganda and Rwanda	Heineken
Sierra	Kenya	Sierra
Skol Brewery	Rwanda	Unibra

Source: Compiled by author

From the table above, the East African beer market is more concentrated than the non-alcoholic beverages market, at the brewing level. The market consists mainly of two global giants that have a manufacturing presence in the region: SABMiller and Diageo, represented through their subsidiaries. Diageo's presence in the region is through its subsidiary East African Breweries Limited (EABL), which produces and bottles 11 beer brands in the region. Competition between SABMiller and Diageo began to grow fierce from 2011, with both making significant investments to grow their reach in Kenya, Tanzania and Uganda.[14] SABMiller pledged to invest an additional $70 million into Nile Breweries, while Diageo pledged a new brewing plant in Moshi, Tanzania under Serengeti Breweries, a subsidiary of EABL.[15]

Similar to non-alcoholic beverages, bottling and distribution in the beer market is important in ensuring the competitiveness of beer brands. The large beer manufacturers listed above are heavily involved in the brewing and bottling of their own beer, but typically carry out third-party distribution agreements for the distribution of their products. These distributors are typically logistics companies and provide services that streamline the structure and services of beer

[13] https://www.reuters.com/article/sabmiller-castel/update-2-sabmiller-interested-in-castels-african-business-idUSL6E8C928F20120109
[14] https://www.theeastafrican.co.ke/business/EABL--SABMiller-in-battle-for-East-African-market/2560-1280102-nh9cgkz/index.html
[15] https://www.theeastafrican.co.ke/business/EABL--SABMiller-in-battle-for-East-African-market/2560-1280102-nh9cgkz/index.html

beverage logistics.[16] Although many of them also provide logistics services for other industries, the beer distribution industry has proved to be potentially highly competitive with most companies contending for the business of the well-known must stock brand produce by incumbent manufacturers. There, business is to a degree limited by the concentration of the upstream manufacturing segment, this is worsened when distributors are tied into contracts with manufacturers.[17] Distributors typically compete on geography, with contracts specifying areas that they can operate in. Due to these restraints, specific distributors will typically distribute one brand unless they can get a contract to distribute a competing brand in or around the same area, or gain sufficient scale to distribute a competing brand in wider areas.

Prior to the merger, there had been competition issues relating to the exclusive nature of beer distribution agreements (Das Nair and Kaziboni, 2014; Nhundu, 2016). In Kenya, for example, the Beverage Distributors of Kenya association has been seeking to align distributor contracts with the Competition Act in order to combat monopolistic behavior by manufacturers through exclusive contracts.[18] EABL was alleged to have issued three-year contracts to that prevent distributors from distributing and selling products of rival firms. The contracts required the distributors to submit an oral or written notification should they wish to distribute a competitor's products or operate outside designated territories (Nhundu, 2016). This is compounded by market allocation agreements which give rise to serious concerns over control and power in the regional market.

It is clear that the manufacturing levels in both product markets were relatively concentrated. Industry consolidation and restructuring in the beer industry at a global level through entities such as Heineken and AB Inbev led to manufacturers taking the opportunity to leverage their scale, as seen through the bottling and distribution segments, and taking an international view of sourcing products in a cost effective manner.[19] However, while the upstream levels of the beer market remained relatively unchallenged, the non-alcoholic beverages market saw increasing rivalry and contestation only at the national level. At the regional level, TCCC still held the position as market leader.

TCCC and SABMiller were thus both relatively dominant firms in the manufacturing of beverages in the east African region. In bottling and distribution, while the interests of TCCC were limited, the 100-year head start afforded to TCCC in being a household brand, as well as extensive resources in marketing, meant that entrants and smaller rivals did not share a level playing field with the global firm. While there was room for market contestation shown through the ability of rivals firms to undercut TCCC on price, high structural barriers particularly in bottling and distribution still prevailed.

[16] https://www.businessdailyafrica.com/Lobby-wants-spirits-beer-distribution-opened-up/-/539552/3179428/-/8yl23cz/-/index.html
[17] https://www.businessdailyafrica.com/Lobby-wants-spirits-beer-distribution-opened-up/-/539552/3179428/-/8yl23cz/-/index.html
[18] https://www.businessdailyafrica.com/Lobby-wants-spirits-beer-distribution-opened-up/-/539552/3179428/-/8yl23cz/-/index.html
[19] https://www.springtideprocurement.com/wp-content/uploads/2015/09/White-Paper-Evolution-of-Brewery-Supply-Chain.pdf

3.3 The post-merger situation

TCCC's dominance in CSDs is evidenced across the East African region, with PepsiCo the largest producer in Uganda (**Table 4**). While the table below does not show the market shares of all manufacturers for each country and the region, due to data constraints, the market shares of the most dominant firm post-merger is shown.

Table 4: Non-alcoholic beverages manufacturers market shares by country, 2018

Regional	Kenya	Tanzania	Uganda
TCCC ~40%	TCCC ~70%	TCCC ~40%	Hariss International ~12%
Pepsi Co. ~20%	Kevian Kenya ~5%	Bakhresa ~14%	Pepsi Co. ~53%
	Aquamist ~12%	MeTL Group ~16%	

Source: Standard Bank (2019) and authors' calculations

Data on market shares in the bottling segment of the value chain is not publicly available, making it relatively difficult to compute. However, reports indicate that Almasi Beverages, Equator Bottlers and Nairobi Bottlers were Kenya's leading bottlers, with an estimated combined market share of ~70%.[20] After the approval of the TCCC merger, CCBA owned all three of these businesses, leaving Coastal Bottlers as the only independent bottler in Kenya.[21] In Tanzania, Coca-Cola Kwanza commands ~40% of the soft drinks bottling market[22], and was also subsequently acquired by CCBAA, along with Nyanza Bottling Company. In Uganda, PepsiCo bottler CBL leads the bottling segment with ~50% of market bottling activities through being the sole bottler for PepsiCo. There remains a range of independent producers with their own bottling facilities, along with the Heineken plants in Rwanda and Burundi. The dominance of CCBA is, however, consolidated through the merger across the region.

Table 5: Major bottling companies, and ownership, after merger

Bottler	Country	Ownership before merger	Ownership after merger	Beverage
Equator Bottlers	Kenya	Kretose Investments	CCBA	TCCC beverages
Almasi Beverages	Uganda	Centum Investments (53.8%)	CCBA	TCCC beverages
Nairobi Bottlers	Kenya	Centum Investments (53.9%)	CCBA	TCCC beverages
Crown Beverages	Kenya	SABMiller/ABI	CCBA	TCCC beverages

[20] https://www.liquidafrica.com/centum-buys-majority-stake-in-bottling-firm/ and https://www.foodbusinessafrica.com/2019/06/12/centum-investment-to-sell-stakes-at-coca-coca-bottlers-for-us192-5m/
[21] https://furtherafrica.com/2019/10/28/coca-cola-makes-major-acquisition-in-kenya/
[22] http://personal.lse.ac.uk/sutton/tanzania_final.pdf

Coastal Bottlers	Kenya	Coastal Bottlers	Coastal Bottlers	TCCC beverages and other beverages
Coca-Cola Kwanza	Tanzania	Coca-Cola SABCO	CCBA	TCCC beverages
Nyanza Bottling Company	Tanzania	Coca-Cola SABCO	CCBA	TCCC beverages
Century Bottling	Uganda	Coca-Cola SABCO	CCBA	TCCC beverages
BRARIRWA	Rwanda	Heineken	Heineken	TCCC beverages
BRARUDI	Burundi	Heineken	Heineken	TCCC beverages
Rwenzori	Uganda	SABMiller/ABI	CCBA	TCCC and SAB beverages
Bonite Bottlers Limited	Tanzania	IPP Group of Companies	IPP Group of Companies	TCCC Beverages
A-One Products and Bottlers	Tanzania	MeTL Group	MeTL Group	MeTL Group beverages
Azam	Tanzania	Bakhresa Group	Bakhresa Group	Bakhresa Group beverages
Aquamist	Kenya	Aquamist	Aquamist	Aquamist beverages
Riham	Uganda	Hariss International	Hariss International	Hariss International beverages
Sayona Drinks	Tanzania and Uganda	Motisun Group	Motisun Group	Motisun Group beverages
Kevian Kenya	Kenya	Kevian Pure African Delights	Kevian Pure African Delights	Kevian Beverages

Crown Beverages Limited (CBL)	Uganda	Crown Beverages Limited (CBL)	Crown Beverages Limited (CBL)	Pepsi
SBC Tanzania	Tanzania and Kenya	SBC Tanzania	SBC Tanzania	Pepsi

Source: Compiled by author

In the beer market, market shares have not changed as a result of the merger and there remain very high levels of concentration, with possible market division by country. This is especially as a result of the legacy of the cross-shareholding agreement between SABMiller and EABL described above.

Table 6: Market shares of main beer producers by country, 2018

Kenya	Tanzania	Uganda	Rwanda
Kenya Breweries EABL/Diageo ~90%	TBL/SABMiller ~75%	Nile Breweries/SABMiller ~60%	Heineken ~75%
Keroche Breweries ~3%	Serengeti Breweries /EABL/Diageo ~15%	Parambot Breweries ~2%	Skol Brewery/ Unibra ~15%
		Uganda Breweries/EABL/Diageo ~17%	

Source: Compiled by author

The distribution level in the beer industry remains heavily dominated by exclusive distribution contracts.[23] As a result, competition among distributors is constrained, and heavily dependent on the presence of beer manufacturers. Again, distributors are likely contest to distribute the beverages of the producers with larger market shares as they are again must stock brands. Due to the availability of volumes, distributors are thus likely to stick with sole distributorship agreements with large manufacturers.[24]

The market shares above show that post-merger, both SABMiller and TCCC hold positions of dominance in more than one EAC member state. The merging parties therefore had and maintained dominance pre- and post-merger. As the regional authority that assessed the merger, the CCC gave little consideration to the fact that SABMiller was the largest bottler of beverages in Africa as well as that there was potential for consolidation of bottling activities at a regional level (Klaaren and Sucker, 2020). The combination of bottling and distribution being at the heart of competition in the beverage industry in the region, SABMiller being the largest bottler and party

[23] https://www.businessdailyafrica.com/Lobby-wants-spirits-beer-distribution-opened-up/-/539552/3179428/-/8yl23cz/-/index.html
[24] https://www.businessdailyafrica.com/corporate/EABL-s-biggest-beer-distributor-signs-deal-with-Keroche/539550-3318890-2f7wwhz/index.html

to the merger, and SABMiller having bottling interests in both beer and CSDs points to the need for regional assessment of the merger by the EACA. The next section highlights this further by underlining the theory of harm and potential competitive effects of the merger.

3.4 **Theory of harm and competitive effects**

The pre- and post-merger situational analysis shows that prior to the merger, the beverages market in East Africa, and Africa more generally, was relatively concentrated, with global incumbents dominating the market. The section above shows that following the merger, not only did dominance persist in both the CSDs and beer product markets at the manufacturing level, but dominance of upstream producers was further cemented by consolidation of bottling activities in the downstream segment of the value chain. This has potential effects in both beer and CSDs, resulting in the raised barriers to entry by lessening competition in the bottling industry which is detrimental for new entrants without strong distribution systems if access to bottling and distribution capacity is limited.

The preceding sections have shown that the beverages industry is characterized by high barriers to entry and a high dependency on midstream segments in the value chain for competitiveness. Furthermore, existing capabilities and the ability of large incumbent firms to either become vertically integrated or leverage their upstream market power for third party services allows for strategic barriers to entry to also be used. The identification of the importance of the bottling segment along with the understanding that beer beverages and CSDs are direct competitors in this value chain encompasses the horizontal dimensions of the merger. Therefore, in the relevant product markets, there is a horizontal overlap between CSDs and beer in the bottling segment of the value chain. The consolidation of bottling activities between the parties to the merger means that there has been a lessening of competition through the removal of effective competition. This is one of the potential harms to be caused by the merger. The region wide reach of the parties shows that geographically, this harm to competition is potentially on the region entirely.

Similarly, the extent to which the parties to the merger are vertically integrated and strategically, have the ability to use their downstream presence to influence the extent to which upstream rivals can participate, covers the vertical dimensions of the merger. This makes it possible for TCCC and SABMiller to coordinate (through CCBA) to hamper access to the beverages market by actual or potential rivals through tying up large proportions of bottling and distribution capacity across the region.

Competition concerns and entry barriers often arise in bottling and distribution. Dominant producers typically invest heavily in marketing and also rely on their cultivated distributed networks (Zangeni, 2015), bringing in first mover advantages. These firms generally exclude competitors from using their distribution networks and the in-store coolers and fridges in which their drinks are displayed (Zengeni, 2015). Due to this, entrants or smaller firms can be obstructed in getting products to consumers through a distribution network. The market may have structural barriers to entry such as sunk costs (marketing, advertising and R&D), switching costs (brand loyalty) and economies of scale (lower costs for incumbent firms). Strategic barriers to entry are also be prevalent in the industry.

Scope for strategic behavior

Both TCCC and SABMiller arguably embarked on aggressive behavior post entry of the local players, with TCCC looking for more innovative and cost effective ways to reach its customer while SABMiller embarked on leveraging it bottling capabilities to acquire bottling rights for various CSDs and beer beverages. These activities were, although not prohibited, a form of strategic barriers to entry. The combination of their bottling activities and further acquisition of key local bottlers is also a strong indication of a strategic move to increase competitiveness (and possibly also entry barriers) against growing local manufacturers.

Scope for strategic behavior is also seen in competition cases in various jurisdictions where authorities have investigated the behavior of both TCCC and SABMiller, following being accused of strategically excluding rivals through means such as exclusive contracts with distributors and retailers. In the European Union (EU), for instance, agreements between TCCC and its distributors and retailers included exclusive arrangements, target and growth rebates, and tying practices which forced retailers to take less popular CSDs.[25]

As part of its strategy, TCCC also historically provided retailers with branded fridges, which also had come with the condition that competing brand cannot be stocked in these fridges. In the EU and South Africa, it was ruled that respectively, 20% and 10% fridge space should be allocated to competing brands in TCCC fridges[26] (Competition Tribunal, 2016). This heavily restricts the ability of lesser known brands to compete, especially when they have far fewer capital outlays than global giants to provide technical sales, marketing and equipment assistance to retailers and throughout a distribution network. As a result, global brands such as TCCC are able to restrict entry and participation in the upstream concentrate manufacturing segment by restricting access in the downstream distribution and retail segment. This situation is exacerbated when drinks brands such as TCCC are well-known must-stock brands, and retailers cannot forgo stocking these beverages.

4. Conclusions and implications for regional merger evaluation

It has been established that key industries in Africa, and in the region, are highly concentrated, and the beverage industry is no exception. However, while incumbent firms such as TCCC and SAB continue to dominate the industry, the region has over the past decade come to witness more contestation by local players who have been able to challenge incumbency by leveraging existing capabilities, as well as their understanding of changing consumer behaviour, to cater for the market.

It has also been established that success in the beverages industry is highly dependent on bottling and distribution capabilities. Therefore, while entry has been seen in the upstream market, the positions of incumbent firms can only be effectively challenged through this segment of the value chain. The post-merger analysis shows that not only is this segment highly important, but it is also concentrated and linked to control by the large producers at the upstream level of production. This control spreads throughout the region, as seen by the regional presence of TCCC and SABMiller and subsequent acquisitions of bottling capabilities post-merger throughout the region. This is a very important observation. We see that while a regional competition authority needed to define the relevant geographic market as regional, it was also paramount to have assessed

[25] https://ec.europa.eu/commission/presscorner/detail/en/IP_05_775
[26] https://ec.europa.eu/commission/presscorner/detail/en/IP_05_775

competition in the bottling segment of the value chain together with the CSDs and beer market and not only in relation to the manufacturing of beverages.

Although an extensive market definition exercise was not carried out for the purposes of this analysis, the case study has shown that there is a danger in defining markets either too narrow. The regional assessment of this case in Africa was officially done by the CCC, and although the CCC does not have jurisdiction over some EAC member states, we see that if there had been more consideration for the bottling and distribution segments of the value chain, the merger decision would have likely not have been an approval without conditions.

The case study is also instrumental in showing that there is an important role to be played by entrants and small rivals in integrating markets and improving consumer welfare through imposing competitive pressure on incumbents and bringing in investment and innovation. However, markets need to be conducive for entry and not champion the positions of large firms. This is particularly important in a regional context, where larger economies will typically have large firms that can easily dominate the regional market.

The findings of this paper show that while effective regional competition enforcement is resource intensive, it is necessary especially if the benefits of regional integration are to be fully realized. The importance is shown in the subsequent increase of dominance by CCBA following the regional unconditional approval of the merger, acquiring operations in Kenya, Tanzania, Ethiopia and Uganda and also being the subject of an investigation by the CCC into restrictive vertical distribution. Therefore, the opportunity cost of not having effective regional merger assessments may be that customers and consumers are subject to restrictive and anticompetitive practices in the long run, which can prove to be even more detrimental.

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