## **UNDERSTANDING CONGLOMERATE MERGERS AND THE NEED FOR REGULATION IN ZIMBABWE**

### **INTRODUCTION**

In Zimbabwe, conglomerate mergers fall under the regulatory scope of the Competition Act *[Chapter 14:28]* **(“Act”)*.*** Unlike horizontal and vertical mergers, conglomerate mergers combine companies from unrelated markets or industries. While such mergers may initially appear harmless to competition, they can still create conditions that distort markets, limit choice, and reduce consumer welfare over time. The Competition and Tariff Commission **(“Commission”)** is mandated to ensure that these mergers do not create market structures or conduct that hinder fair competition or harm the public interest.

### **WHAT ARE CONGLOMERATE MERGERS?**

Conglomerate mergers occur when two or more firms from different, unrelated industries combine under common control. These can be:-

* ***Pure conglomerate mergers****,* where firms operate in entirely unrelated markets (e.g., a mining company acquiring a fast-food chain).
* ***Mixed conglomerate mergers****,* where products are not directly competing but may be complementary (e.g., a beverage company acquiring a snack manufacturer).

Such mergers can offer significant advantages by allowing companies to diversify risk across different industries, share resources and infrastructure to reduce costs, and leverage strong brands to enter new markets. They can expand customer bases and increase the merged entity’s financial capacity for investment in innovation, expansion, and long-term projects. However, the same features that make them beneficial can also be used in ways that reduce competition and limit consumer choice hence the need for regulation by competition authorities.

### **THEORIES OF HARM ASSOCIATED WITH CONGLOMERATE MERGERS**

Although conglomerate mergers do not directly eliminate a competitor in a specific market, they can significantly lessen competition and result in **public interest concerns.** Key competition concerns emanating from conglomerate mergers are as follows:

## **Market Power Leveraging**

If a company is already very strong in one market, acquiring a company in another market could allow it to use its power and reputation in one market to also dominate the target market. The company might do this by:-

* Selling the products as a “bundle” so that smaller market players struggle to get shelf space; or
* Offering discounts that only apply if a retailer or distributor buys bothproducts; or
* Using brand recognition to convince consumers to switch away from competitors in the new market.

This practice is called leveraging *market power* where dominance in one market is used to push sales in another market.

## **Foreclosure through Tying and Bundling**

**Tying** entails forcing a buyer to take a second product in order to get the first. For example, “You can only buy this printer if you also take our bond paper.”**Bundling** entails packaging products together at a price that makes it hard to buy them separately. While these can sometimes be efficient (for instance saving costs in distribution), they can also block smaller competitors from getting customers, as consumers end up “locked in” to the dominant supplier’s entire range.

## **Entrenchment and “Deep Pockets”**

Large conglomerates often have more financial resources than smaller firms. After a merger, they might temporarily sell at very low prices, even below cost, just to drive smaller competitors out. Once those competitors exit the market, prices increase because customers have fewer choices. This is called ***“predatory pricing,***” and it is easier for big, well-financed firms to sustain losses long enough to harm rivals.

## **Raising Barriers to Entry**

A merged conglomerate can control key resources such as distribution networks, advertising channels, or raw materials making it harder for new businesses to enter the market.
Examples include the following:

* If the merged firm owns the only large-scale distribution fleet, a newcomer will have to spend much more to get their product to market.
* If the firm controls a popular retail chain, it might give prime shelf space to its own products and put competitors in less visible spots.

These competition concerns are particularly acute when the merging parties supply complementary or weakly substitutable products, enabling strategic conduct that narrows consumer choice.

### **HYPOTHETICAL EXAMPLE OF A CONGLOMERATE MERGER**

Imagine **ZimBeverage Ltd,** a major producer of bottled soft drinks, acquiring **SnackCo Zimbabwe,** a leading manufacturer of packaged potato chips and savoury snacks.

 ***Pre-merger Scenario***

ZimBeverage dominates the carbonated drinks sector, while SnackCo is a top player in the snacks market. Although they operate in different markets, their products are frequently consumed together.

***Post-merger Competition Concerns***

1. **Leveraging Market Power Through Bundling:** ZimBeverage could require wholesalers and supermarkets to buy SnackCo products as a condition for accessing discounted beverage supplies.
2. **Shelf Foreclosure:** The merged firm could negotiate for exclusive supermarket shelf space for its drinks and snacks, reducing visibility and sales opportunities for rival snack brands.
3. **Cross-Marketing Advantage:** ZimBeverage could use its extensive distribution network to promote SnackCo products aggressively, leaving smaller snack manufacturers unable to compete.

While this merger might bring efficiencies, such as shared distribution trucks and joint marketing campaigns, it could also foreclose rivals, limit consumer choice, and accord the merged entity an unfair competitive advantage. In accordance with the provisions of the Act, the Commission would assess these competition concerns and possibly impose conditions preventing anti-competitive bundling or foreclosure post merger.

### **CONCLUSION**

Although conglomerate mergers may not directly eliminate competition in a single market, they can reshape market structures in ways that undermine economic efficiency, innovation, and consumer choice. The Commission’s mandate is therefore to assess and, where necessary, impose remedies/conditions on conglomerate mergers inorder to preserve competitive market conditions. Hence, effective merger regulation ensures that mergers do not entrench dominant positions or foreclose rivals, but instead foster a fair and competitive market environment that remains open, innovative, and responsive to consumer needs.