

# Geographic Market Definition in Korea

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# **1. Geographic Market Definition and Experiences in Korea**

# 1.1. The KFTC's geographic market definition and review criteria

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- No meaningful differences between geographic market definition and product market definition
  - Usually use the same methodology or tools such as “SSNIP test”

## < Review criteria for geographic >

The term particular business area refers to the entire geographic area in which a significant number of consumers can switch to alternative suppliers when there are meaningful price increases in the particular area for a certain period of time while prices in all other areas remain the same.

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- Consider that demand-side substitution is the most important factor
  - Also, take into account supply-side substitution
- When analyzing supply and demand substitution
  - Qualitative analysis: intuitive decision based on the characteristics of a product
  - Quantitative analysis: using economic analysis methods such as SSNIP & E-H test

# 1.2. Geographic market definition of Korean M&A cases

: A merger between Muhak Co., Ltd. and Daesun Distilling Co., Ltd. (2003)

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## 1.2.1. Background of the case

- Muhak and Daesun produce and trade ‘Soju’ which is one of the most popular alcoholic beverages in Korea
  - Muhak acquired 41.2% of shares of Daesun
- Geographic market definition was controversial
  - Merging parties’ argument: National market
    - Strong competitors had big market shares in the national market, while Muhak and Daesun prevailed only in some particular regions
  - KFTC’s argument: Regional market
    - Muhak had strong presence in Gyeongsangnam-do (84.3% of regional market share)
    - Daesun had strong presence in Busan (84.4% of regional market share)

# 1.2. Geographic market definition of Korean M&A cases

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## 1.2.2. Analysis depending on the ways of defining geographic markets

### ① SSNIP test using critical loss analysis

- The decision whether the soju markets are regional markets or not
  - Based on whether the regional customers would switch to other regional soju brands when Muhak and Daesun perform a SSNIP
- Relevant market was determined by comparing sales loss and critical loss
  - Actual sales loss: Interviewing consumers in the two regions to obtain estimated sales loss the companies might experience from price increases
  - Critical loss : Calculating by using profit margins of the two enterprises

## 1.2. Geographic market definition of Korean M&A cases

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< Table 1 > Level of critical and actual sales losses depending on the range of price increase

Price Increase*	10%	15%	30%
Critical Loss	23.9%	32.0%	48.5%
Actual Sales Loss	19.9%	23.2%	34.5%

- Even with 10 to 30 percent of high price increases, the actual sales loss was smaller than the critical loss
  - Such outcome indicates that the consumers of the two regions would not switch to other regional soju brands even with drastic increases in the soju prices
- As a result, Busan and Gyeongsangnam-do can be respectively defined as a single regional market

# 1.2. Geographic market definition of Korean M&A cases

: A merger between Muhak Co., Ltd. and Daesun Distilling Co., Ltd. (2003)

## ② Elzinga-Hogarty test (E-H test)

- Using the production and consumption figures of the merging parties in Busan and Gyeongsangnam-do, the KFTC calculated LIFO & LOFI
  - LIFO (little in from outside: production in the region/consumption in the region)
  - LOFI (little out from inside: consumption in the region/production in the region)

### < Table 2 > EH ratio of each market

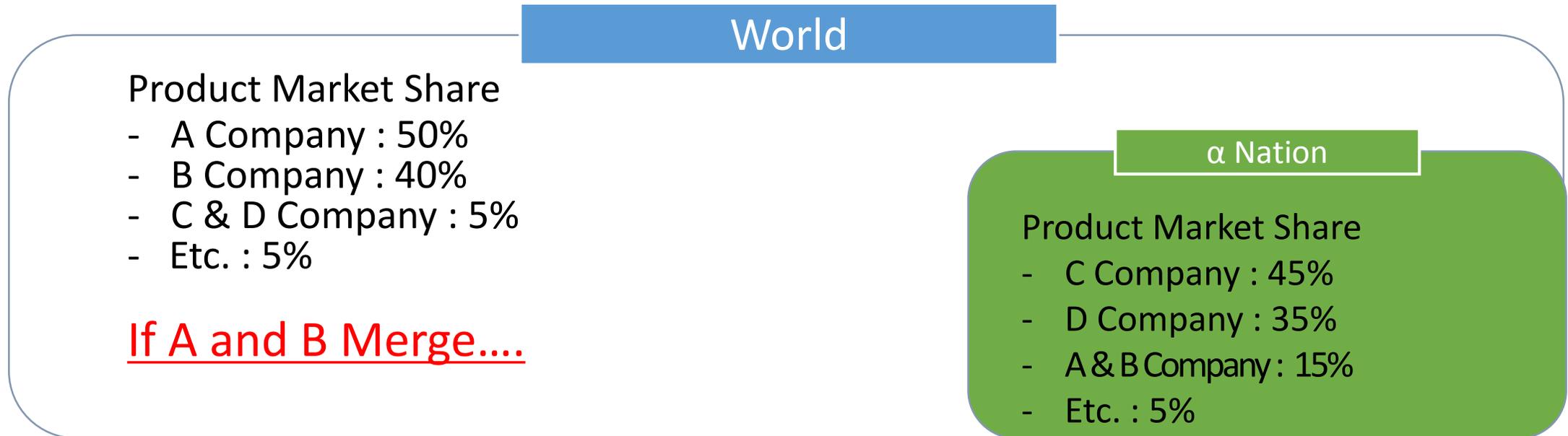
Category	Busan	Gyeongsangnam-do	Note
LIFO	0.84	0.84	84% of soju consumers in Busan and Gyeongsangnam-do chose Daesun and Muhak which are the local business entities
LOFI	0.85	0.91	85% and 91% of the soju of Daesun and Muhak respectively were consumed by local consumers in Busan and Gyeongsangnam-do

- Reached the same conclusion that as inflow and outflow of the product in the region is very small → Defined as a separate geographic market

## **2. Global Market vs. National Market**

## 2. Global market vs. national market

① A merger between global companies with small national impact



- Assumptions:
- Product market has no trade barriers such as regulations on imports
  - Transportation costs are very low and relevant products are homogeneous
  - All the manufacturers can sell the products anywhere around the world
  - Consumers can only access the products distributed in their regions
  - Company A and B do not have active marketing activities in country Alpha as the country's market size is small

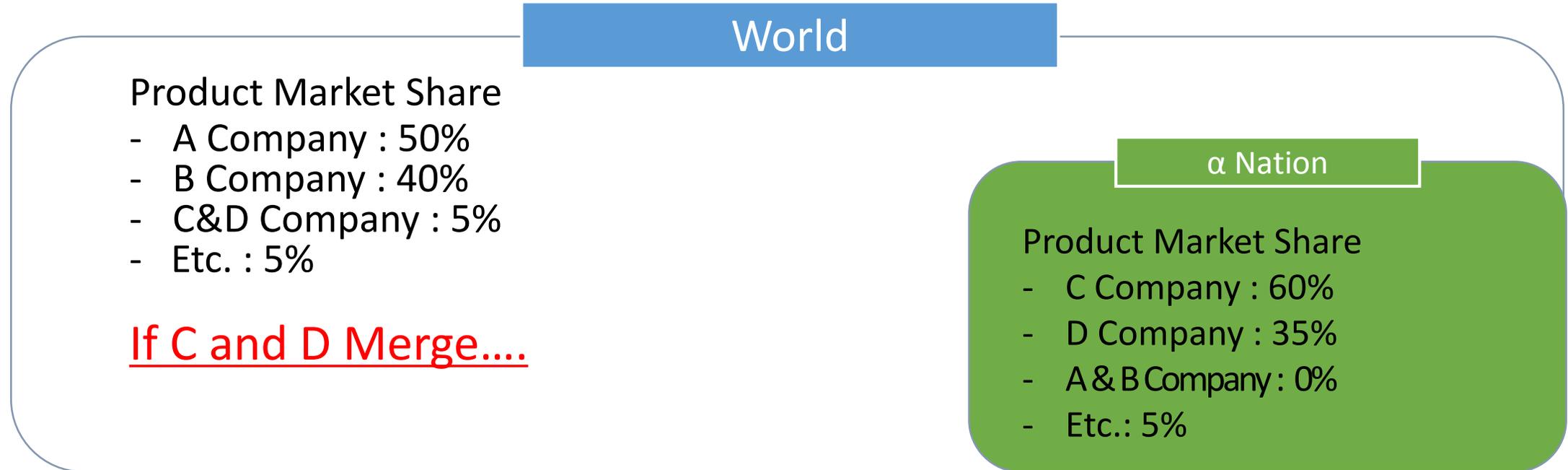
## 2. Global market vs. national market

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- ① A merger between global companies with small national impact
- Under the assumptions, if company A and B merge, how do you think the competition authority of Alpha should define the geographic market?
  - If the competition authority defines the geographic market as a global market,
    - the authority can conclude that the merger has anti-competitive effects and requires remedies
    - As a result, although A and B do not have significant business activities in Alpha, they might be imposed with remedies
  - If the competition authority defines the geographic market as a national market ,
    - the authority can conclude that the merger does not have anti-competitive effects
    - This merger, however, can lead to a big monopolist in the global market which can negatively affect the national market of Alpha in the future

## 2. Global market vs. national market

② A merger between domestic companies with products of high supply-side substitution



Assumption: Let's assume that just like in the first case, consumers of Alpha country tend to consume products distributed in the country only but company A and B can enter the country's market anytime. The difference is that company A and B do not run any business in Alpha

## 2. Global market vs. national market

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- ② A merger between domestic companies with products of high supply-side substitution
- Under the assumptions, if company C and D merge, how do you think the competition authority of Alpha should define the geographic market?
  - If the competition authority defines the geographic market as a global market,
    - the authority can conclude that the merger does not have anti-competitive effects
    - However, that can lead to an overestimation of “supply-side substitution” by considering business entities with no business activities in Alpha as strong competitors
  - If the competition authority defines the geographic market as a national market,
    - the authority can conclude that the merger can lead to a near monopoly so that it has to disapprove the merger or impose remedies
    - In this case, supply-side substitution is taken into account in the “anti-competitiveness assessment” phase. Then, we are not sure if we would reach the same conclusion as above

# **3. Approaching Customers and Competitors in Other Jurisdictions**

### 3. Approaching customers and competitors in other jurisdictions

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- Due to the development of technology, there are more and more cases where geographic market goes beyond one nation
- We have some experiences in approaching customers and competitors in other jurisdictions while handling global merger cases
  - If we need to gather information from customers and competitors in other countries,
    - usually send questionnaires to them in English via email
- Most of them tend to submit their answers although we don't have power to force them

**Thank You**