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

- 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. ....

- 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)

1.2.1. Background of the case

- Muhak and Daesun produce and trade 'Soju' which is one of the most pupular alcoholic beverages in Korea

  - Muhak acqured 41.2% of shares of Daesun

- Geographic market definition was controversial

  - Merging parties' argument: National market

    → Strong competitiors had big market shares in the national merket, while Muhak and Daesun prevaild 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

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

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 reginal 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

World

Product Market Share
- A Company : 50%
- B Company : 40%
- C & D Company : 5%
- Etc. : 5%

If A and B Merge….

α Nation

Product Market Share
- C Company : 45%
- D Company : 35%
- A & B Company : 15%
- Etc. : 5%

Assumptions: a. Product market has no trade barriers such as regulations on imports
b. Transportation costs are very low and relevant products are homogeneous
c. All the manufacturers can sell the products anywhere around the world
d. Consumers can only access the products distributed in their regions
e. 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

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

World

Product Market Share
- A Company : 50%
- B Company : 40%
- C&D Company : 5%
- Etc. : 5%

If C and D Merge….

α Nation

Product Market Share
- C Company : 60%
- D Company : 35%
- A & B Company : 0%
- Etc.: 5%

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

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

- 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