

A Comparative Study of Korean and Japanese Logistics Industries' Market Structures : Focusing on Subsidiary and Third-Party Logistics Companies

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Abstract

The logistics industries of Korea and Japan have very similar growth patterns. In this study, we aimed to determine how market structures are changing in Korea and Japan for the past 10 years. We divided logistics market structures into logistics subsidiaries (2PL) and 3PL companies, and we analyzed whether performances such as turnover, profit, or their growth rate between the 2PL and 3PL markets are significantly different. Korea's market concentration ratio for the logistics industry indicates the rapid turn to a competitive, low-concentration market structure, whereas the comparable market structure in Japan has already entered a perfectly competitive market. The results show that rapid expansion in a subsidiary logistics market depends on a captive market that does not affect 3PL market size and profitability. In fact, that rapid expansion directly reduces the growth in the Korean or Japanese 3PL markets.

Key Words : Subsidiary, Third-Party Logistics, Logistics Industry, Market Structure, Two-way ANOVA

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I. Introduction

The logistics industry in Korea has rapidly grown over the past ten years. Multinational, major manufacturing and wholesale companies have concentrated on the internal and external efficiency and effectiveness of supply chains in an effort to reduce logistics costs. To that end, some companies have established their own logistics companies: second-party logistics(2PL) companies(also known as subsidiaries) owned through mergers and acquisitions in the logistics industry. However, some experts and researchers have suggested that this trend might weaken the competitiveness of existing third-party logistics(3PL) companies, eventually leading to monopolistic and oligopolistic structures in the logistics markets. This is especially relevant for 3PL companies in Korea.

Some researchers have suggested that big business groups have two reasons to prefer setting up their own 2PL companies when entering the logistics market rather than using 3PL companies. These reasons are the “conflict of interest hypothesis” and “efficient transactions hypothesis”¹⁾. Ghemawat and Khanna (1998) proposed similar views, asserting that the subsidiaries of business groups replace poorly performing or nonexistent third-party companies in markets that developed countries take for granted. Others offer tangible empirical results in their research, which are consistent with these arguments²⁾. Results from these studies suggest that business groups could offer efficient forms of governance in some circumstances, showing that subsidiary tended to exhibit higher profitability than independent firms do in developed countries.³⁾

Logistics industries in Korea and Japan have very similar market growth patterns. And they both have only 2PL and 3PL markets all around the world. In this study, we aimed to determine how market structures are changing in Korea and Japan. We divided market structures into 2PL and 3PL companies and analyzed whether performances such as turnover, profit, or their growth rate are significantly different between 2PL and 3PL markets.

II. Literature Review

In this study, we linked the relationship between 2PL and 3PL markets with the existing literature on relationships between subsidiary markets of large companies and the markets of competing independent firms.

1) Chang and Choi(1988), p.142.

2) Chang and Choi(1988); Ghemawat and Khanna(1998)

3) Chang and Hong(2000), p.429.

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