

Partner Choices for Strategic Alliances in Network Markets

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Version: April 22, 2008

Abstract

This paper investigates partner choices for strategic alliances in network markets. One large firm provides a composite goods and competes with two small firms, each provides a complementary component for combing a substitutive composite goods. We find that even though the joint profits obtained by an alliance between a component producer and the large firm (parallel alliances) is always larger than that obtained by another alliance between the two component producers (complementary alliances), a component producer can obtain comparatively larger profits by allying with its complementary partner (with its rival), when the degree of product differentiation is sufficient large (small). Furthermore, social welfare achieved under the complementary alliance is always larger than that achieved under the parallel alliance.

JEL classification number: L11, L13.

Keywords: network markets, strategic alliance partners, Nash bargaining

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