Buffer Joint Ventures

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Abstract

While strategic alliances and joint ventures have become important organizational forms promising a variety of efficiency benefits for the economy, a body of research has been building showing that alliances between competitors can have significant anticompetitive consequences. This paper explores a particular kind of arrangement, here called a "buffer joint venture", in which parent firms create an entity selling products located between their own locations in product or geographic space. Depending upon the governance structure of the joint venture and the timing of price-setting by the joint venture and its parents, the buffer joint venture may reduce competition between the parents leading to higher prices and profits and lower social welfare. By altering the per-period profits from collusion and deviation payoffs, a buffer joint venture can also affect the stability of collusion between parents in a repeated game context.

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