net impact of the increase in coordination is negative: it reduces market power, prices and profits. In this case, by allowing for independent PMs ($\Delta = 0$), a multiproduct firm offsets the net unprofitable effect. Equation (32), however, shows that a decentralized organizational structure may be optimal also in case of oligopoly [21], depending on size of the industry price index effect.

4 Conclusion

This paper analyzes the price-setting behavior of multiproduct firms in a differentiated product market. The structure considered is one where large companies offer either a set of close substitutes (market segmentation) or a set of distant substitutes (market interlacing).

The modelling strategy of the paper is to allow for two different elasticities of substitution: while δ represents the intra-company elasticity of substitution, σ is the inter-company elasticity of substitution. The key feature of the model is the possibility for multiproduct companies to choose their optimal internal organizational structure, according to the relative size of these two parameters.

Each company, consisting of n divisions, may either set prices centrally (as in the traditional approach), or alternatively, it may assign an independent product manager to run each division. In other words, product managers of the same company may behave either independently or cooperatively.

While the model does not consider either the proliferation or the product-line selection decisions, it deals with multiproduct firms' price decisions under oligopolistic competition making use of conjectural variations. Its main purpose has been to provide a microfounded answer about the question of whether and when a system of product managers decentralized decisions is better than a mechanism with a centralized general direction.

The paper has shown that coordination is always profitable under market segmentation; while under market interlacing, the strategy of relying on independent product managers is profitable when the standard monopolistic competition arises; it may also be profitable with oligopolistic (Bertrand) competition under some (not very restrictive) assumptions.

[21] With a not negligible price index effect.