



Impacts of
**PRICE
WARS**

Dynamics, Consequences and
Sustainable Market Practices

EXECUTIVE SUMMARY

Overview

Price wars are used to dominate markets and gain share quickly. They provide short-term benefits for consumers but cause lasting harm to businesses, industries, and economies. The impacts include profit erosion, reduced innovation, and market consolidation. These effects weaken market resilience and limit long-term growth.

Key Impacts

Smaller firms are forced out as dominant players reduce competition and consumer choice. Profit declines drive companies to cut research and development, slowing innovation and technological progress. Industries relying on innovation face stagnation, while interconnected sectors experience disruptions. Job losses and falling investor confidence ripple outward, destabilizing entire industries. Governments often intervene to manage these risks, underscoring the broad harm caused by unchecked price wars.

Case Studies

Examples from streaming services, ride-hailing platforms, telecommunications, e-commerce, and airlines highlight the consequences of price wars. Businesses face financial strain, leading to reduced investments in innovation. Consumer service quality declines as companies prioritize cost-cutting over improvement. Market diversity shrinks, leaving fewer options for consumers.

Recommendations

Businesses must prioritize creating value through innovation and collaboration rather than relying on aggressive pricing. Long-term strategies that focus on resilience strengthen both industries and economies. Policymakers should enforce regulations to maintain fair competition and support smaller firms with incentives to preserve market diversity. Consumers must weigh the hidden costs of low prices—reduced quality, fewer choices, and unreliable services. Sustainable markets require ethical competition, innovation, and collaboration. Balanced competition builds stronger industries, stable economies, and better outcomes for everyone.

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Introduction

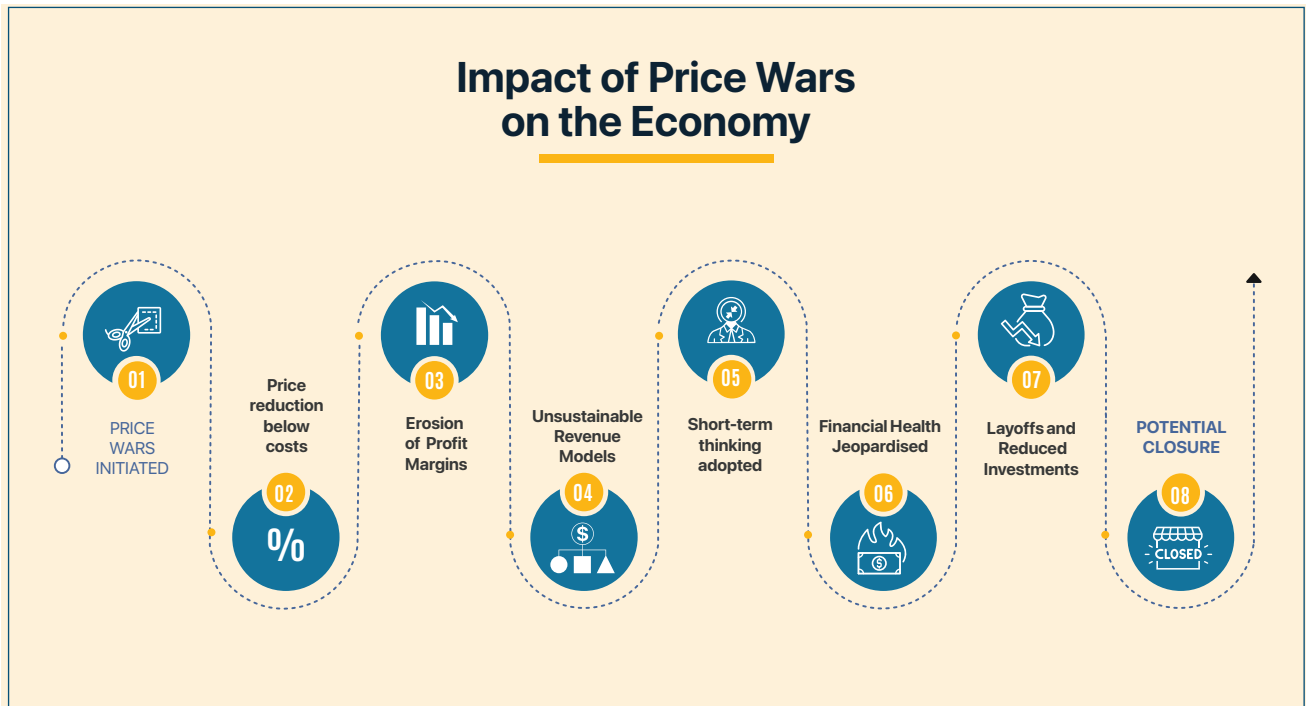
Price wars are common in competitive markets, especially among internet companies. They are often driven by the pursuit of rapid market share and dominance. Companies lower prices to attract customers and outmaneuver competitors. While this strategy appears effective on the surface, its underlying effects are damaging. Price wars erode financial stability. Companies sacrifice profit margins to maintain low prices, putting their survival at risk. The focus shifts from creating value to sustaining cash flow. This approach benefits only the largest firms with significant financial reserves, leaving smaller players unable to compete.

Market dynamics deteriorate under price wars. Smaller competitors exit the market, reducing diversity and innovation. The surviving firms consolidate their dominance, creating monopolistic structures. Consumers lose variety and access to new products and services. Innovation declines as resources are diverted from research and development to offset losses from low pricing. This stagnation affects industries reliant on technological advancement. Price wars also generate broader economic harm. Layoffs, reduced investor confidence, and weakened ancillary industries often follow. What begins as a tactic to attract customers evolves into a cycle of economic disruption. Price wars destabilize companies, industries, and economies. For consumers, they lead to fewer choices and declining service quality. Sustainable growth requires delivering value, fostering competition, and maintaining fair pricing practices.

In Somalia, Hormuud Telecom and Somtel have introduced significant pricing changes, intensifying competition in the telecom sector. Hormuud has reduced prices for its Kudhan Daily, Monthly, and Weekly Unlimited packages while maintaining unlimited data and the same validity periods. These reductions, reaching up to 41.7%, aim to broaden customer access.

Hormuud's ANFAC Plus packages now offer increased data allocations without price increases. For instance, the 850MB package has been upgraded to 1.5GB, representing a 76.5% increase, and the 2GB package now offers 3GB, a 50% improvement. Somtel has responded by increasing data allocations for its packages at unchanged prices. These adjustments aim to enhance customer value and compete directly with Hormuud. Both providers are reshaping the telecom market by prioritizing affordability and improved services. Their strategies reflect an ongoing effort to redefine customer expectations and expand market influence.

This paper highlights the negative impacts of price wars, focusing on profit margins, quality, innovation, and broader macroeconomic effects. Case studies illustrate these challenges, concluding with policy implications to ensure sustainable competition and growth.

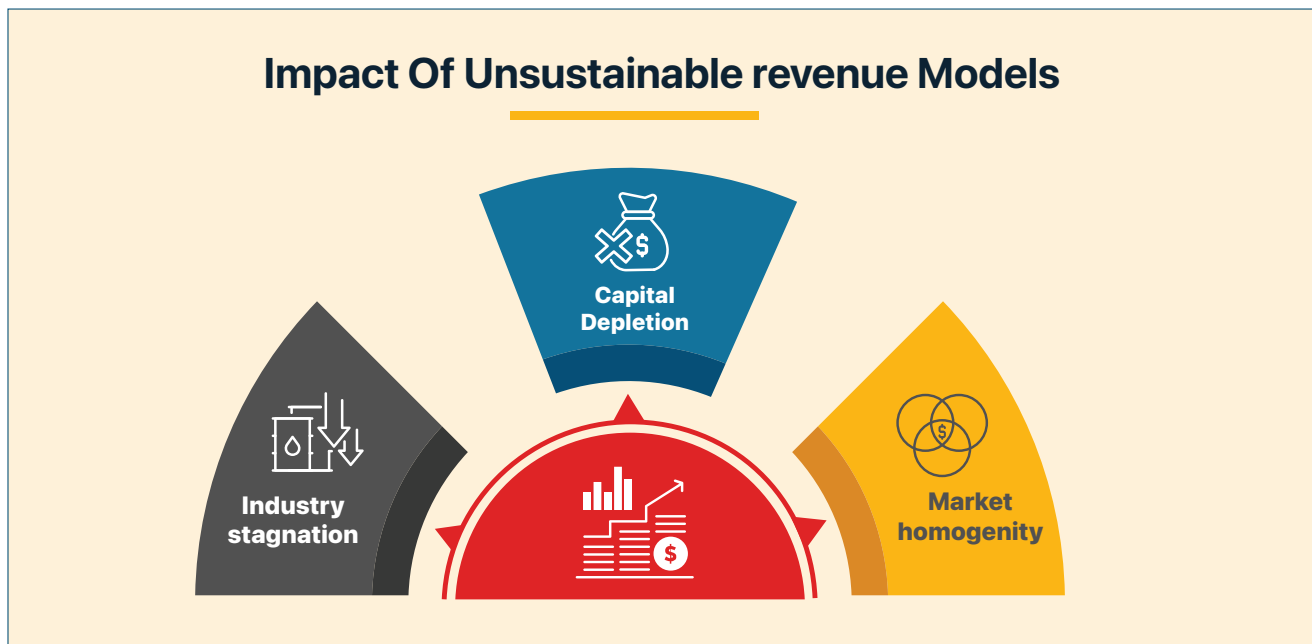


CONSEQUENCES OF PRICE WARS

EROSION OF PROFIT MARGINS

Price wars weaken financial stability by cutting deeply into profit margins. Companies lower prices aggressively to gain market share. These strategies provide immediate benefits but create long-term challenges. Revenue often falls below sustainable levels as firms lower prices to compete. Many sell below marginal costs, relying on capital reserves or external funding. This approach depletes financial resources quickly. As reserves shrink and investors lose confidence, companies operating at a loss face mounting financial pressure. The focus on market share undermines the need for profitability. Long-term strategies are abandoned, leaving businesses unprepared for market shifts or economic challenges. This short-term mindset forces measures like restructuring, layoffs, or closures. These actions further destabilize companies and weaken their financial resilience.

The cumulative effect of profit erosion creates an unstable economic environment. Smaller players without substantial financial backing are forced out, leading to market consolidation. Surviving companies become overly reliant on reactive measures, prioritizing survival over innovation or long-term development. Over time, the market loses its diversity, and industries face stagnation. Sustainable revenue models and a balanced approach to competition are essential to prevent these outcomes. Competing purely on price weakens the market structure, with far-reaching consequences for companies, consumers, and the broader economy.



MARKET DISTORTION AND MONOPOLY FORMATION

Price wars initially stimulate heightened competition as firms aggressively seek to outpace rivals. However, their progression often leads to unintended and harmful consequences, culminating in market distortion and consolidation.

Smaller competitors face significant challenges in price wars. Firms with limited financial reserves cannot sustain prolonged price cuts and are often forced to exit. This creates barriers for new entrants, as markets increasingly favor well-resourced, established players. The loss of smaller firms reduces market diversity, narrowing options for consumers and stifling innovation. With fewer choices, consumers face higher prices, lower quality, or both.

As markets consolidate, dominant firms gain control over pricing and production. The lack of competition reduces incentives for innovation, leading to stagnation. Over time, industries lose the dynamism needed for growth and consumer satisfaction. These monopolistic tendencies create regulatory challenges. Governments and agencies intervene to address predatory pricing and exploitation. However, interventions often occur after significant harm, leaving consumers and smaller firms to bear the consequences.

Monopolistic structures undermine market efficiency and consumer trust. Price wars distort competition, favoring a few dominant players at the expense of a balanced market. This weakens the industry and risks long-term inefficiencies that affect related sectors. Companies should prioritize sustainable strategies that focus on innovation and value creation. Regulators must proactively address predatory pricing and protect fair competition to preserve market health.

Market Destruction and Monopoly Risks



INNOVATION AS A CASUALTY

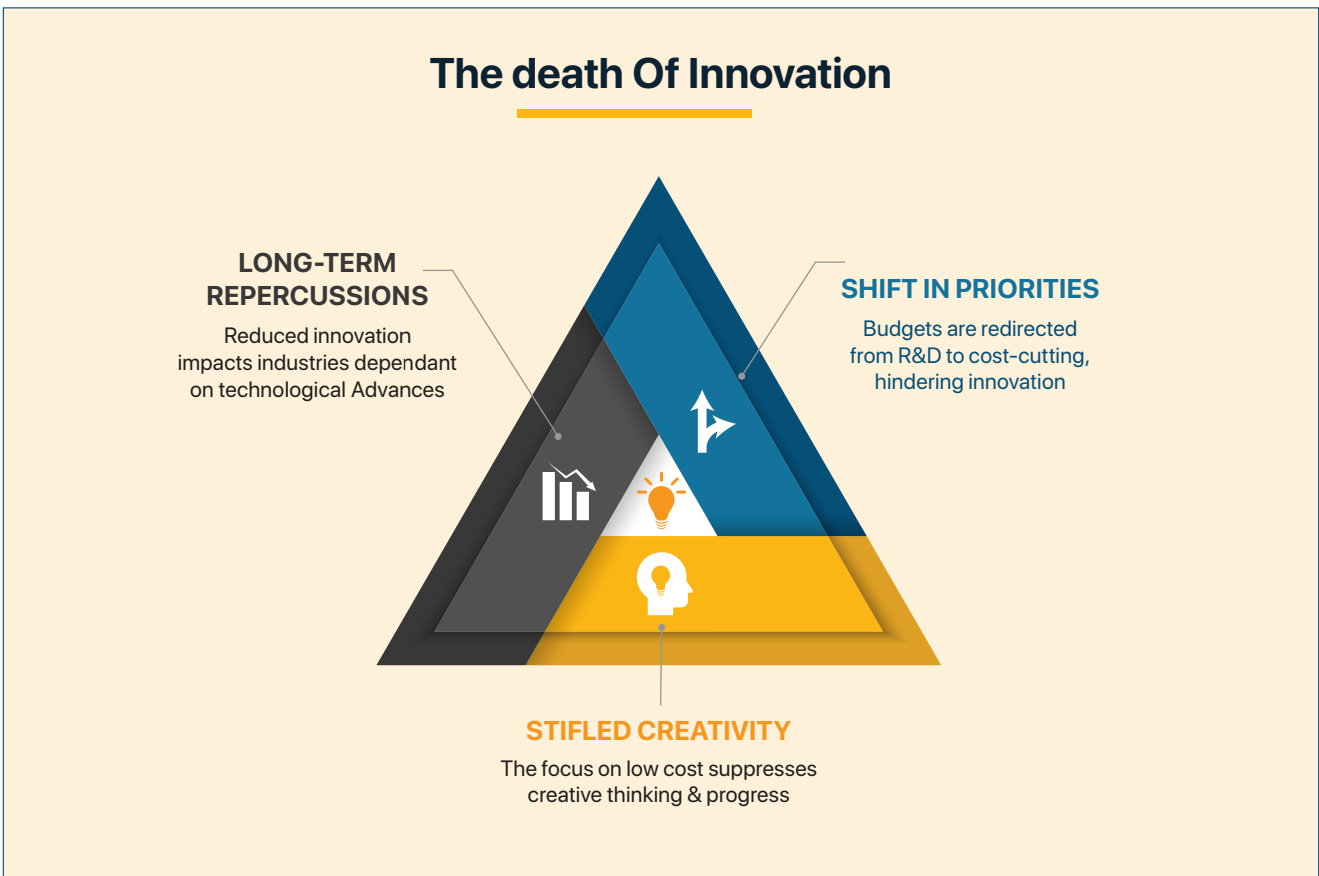
Price wars erode firms' ability to invest in research and development. This deprioritizes technological progress and undermines the foundations of innovation. As profit margins shrink, companies reallocate budgets from R&D to immediate cost-cutting measures. This shift disrupts the creation of new technologies and limits long-term planning. Transformative projects are abandoned. Incremental updates replace bold advancements. The result is a slower pace of progress across the industry.

Firms focused on survival abandon experimentation. Teams tasked with exploring new solutions face reduced funding. Pressure to deliver short-term savings discourages risk-taking. Creativity gives way to operational efficiency. Over time, stagnation replaces innovation. The effects are far-reaching. Industries reliant on internet companies for technological leadership suffer. Cloud computing, e-commerce, and digital marketing lose access to tools that drive growth. Businesses face higher costs and reduced productivity. Entire sectors fall behind in meeting consumer demands.

Consumers experience diminished value. Products and services fail to evolve. Platforms become outdated. Functionality lags behind expectations. Trust in brands erodes as companies fail to deliver improvements. Smaller firms and startups are hit hardest. They lack the financial resources to compete in an environment dominated by price wars. Many exit the market, reducing competition and diversity. The loss of new ideas limits the potential for disruptive change.

Governments should promote innovation through targeted tax incentives for research and development. Enforcing strict regulations against predatory pricing ensures fair competition and market stability. Companies must focus on value creation. Investing in innovation and quality ensures sustainable growth and strengthens competitive positioning.

Collaboration with research institutions and innovation hubs can maintain technological leadership. Innovation drives the digital economy. Companies must protect this foundation by moving beyond price wars and committing to sustainable growth strategies. By fostering creativity and taking measured risks, they ensure long-term relevance and success.



CONSUMER IMPLICATIONS: Illusions of Benefit

Price wars initially seem to favor consumers by offering lower costs and perceived value. However, these benefits are superficial and short-lived. The hidden consequences of aggressive price competition significantly undermine consumer welfare over time.

The drive to lower costs forces companies to compromise on quality. Firms, constrained by shrinking margins, cut corners in production, service delivery, and customer support. Products become less reliable, and customer service deteriorates. Maintenance of systems and upgrades to platforms are delayed or neglected altogether. Consumers, drawn by affordability, face frustrating declines in user experience and overall satisfaction.

Market concentration further limits consumer choice. Smaller, innovative firms are driven out as larger players dominate the market. The diversity of options available to consumers shrinks. Preferences are no longer accommodated, and niche services disappear. Consumers are left with standardized offerings that fail to address varied needs or introduce meaningful alternatives.

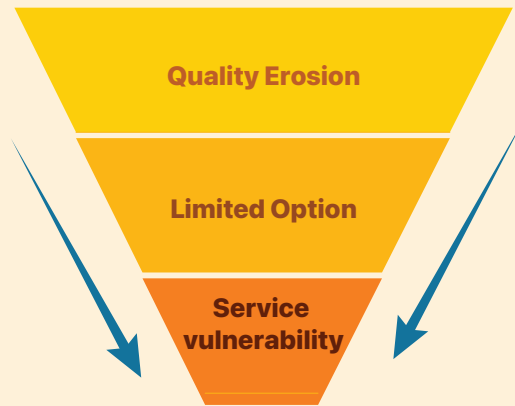
Service disruptions become increasingly common. Financially strained companies abruptly cease operations, leaving customers without essential services. Internet-based offerings such as cloud storage, e-commerce platforms, and digital payment systems are vulnerable to such collapses. Consumers relying on these services for daily activities or business operations experience uncertainty and inconvenience.

The broader impact on consumer trust is severe. As quality diminishes and options narrow, confidence in providers erodes. Loyalty dissipates, replaced by frustration and dissatisfaction. This cycle harms not only individual companies but the reputation of the industry as a whole. To counter these issues, firms must prioritize sustainable practices. Investment in quality and reliability is critical, even in competitive markets. Companies must avoid sacrificing these elements for short-term gains. Regulators play a key role in maintaining market integrity. They must ensure that price wars do not harm consumers or distort competition. Safeguards against monopolies and predatory pricing are necessary to protect diversity and maintain service standards.

Consumers benefit from affordable prices but must consider the long-term effects. Lower costs often lead to reduced quality, fewer choices, and unstable services. The focus should be on achieving a balance. Affordability, reliability, and innovation together define true value..

Consumer Experience Deterioration

Initial consumer benefits



Negative consumer
Consequences

Price wars threaten this balance, highlighting the need for cautious market participation and informed decision-making.

BROADER MACROECONOMIC RAMIFICATIONS

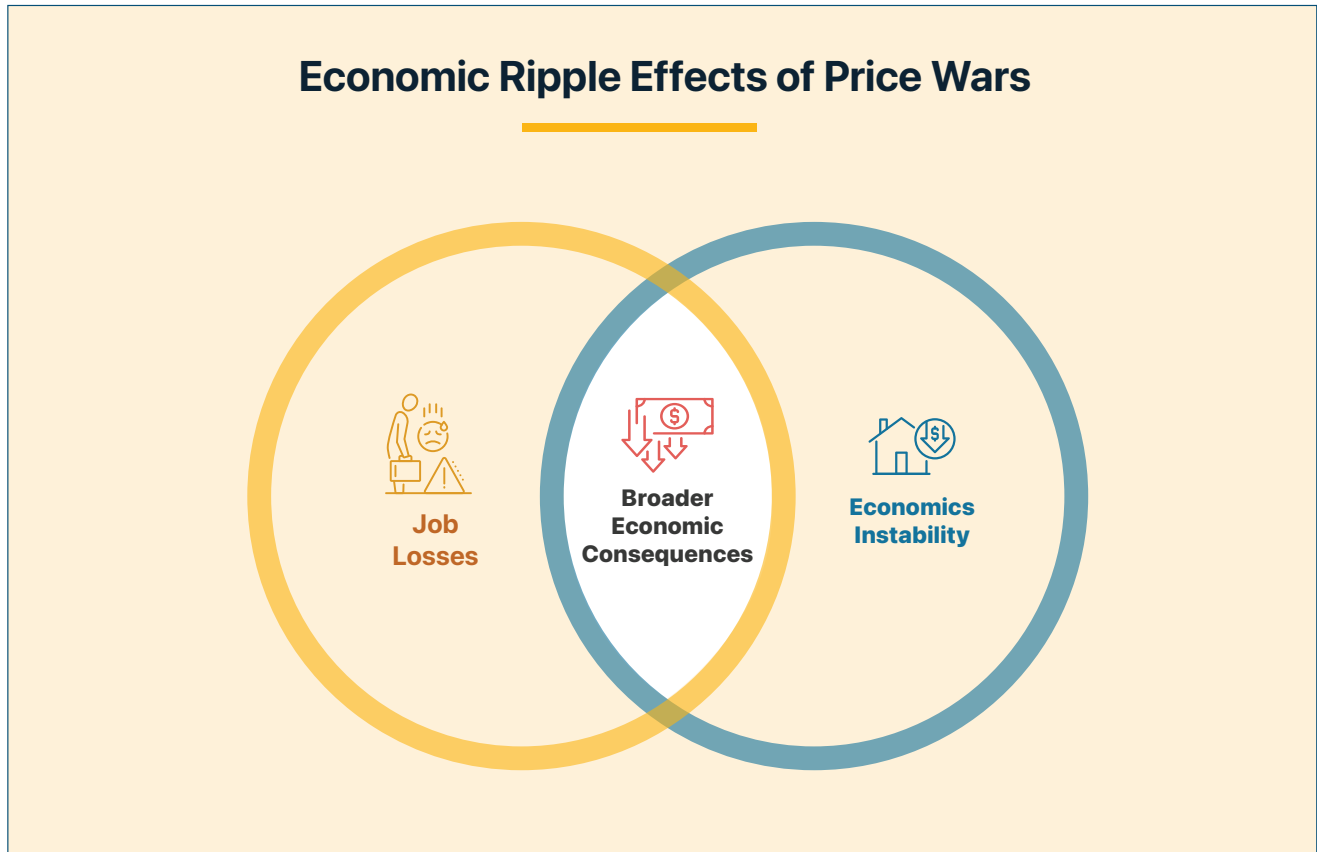
Price wars, while contained within specific industries, generate widespread economic consequences that extend far beyond the companies directly involved. The aggressive pricing strategies create vulnerabilities that ripple through labor markets, investment landscapes, and interconnected sectors, destabilizing broader economic ecosystems. Employment is among the first casualties of unsustainable price competition. Firms under financial strain often resort to layoffs to cut costs. Hiring freezes become the norm, reducing job opportunities across the sector. Employees who remain face heightened job insecurity, as firms struggle to maintain operations amid eroded profit margins. The loss of stable employment impacts household income and consumer spending, exacerbating economic challenges.

Investment confidence also suffers. Weakened corporate performance discourages investors, who perceive the sector as high-risk and low-return. Capital inflows slow, constraining the ability of firms to expand, innovate, or recover from financial difficulties. The lack of funding undermines long-term growth potential, leaving the industry less resilient to future challenges. The effects are not limited to the internet companies themselves. Industries dependent on these firms, such as telecommunications, logistics, and content production, face cascading disruptions. For instance, reduced investments in digital infrastructure delay advancements in connectivity. Logistics networks reliant on internet platforms for coordination and efficiency experience inefficiencies. Content creators lose viable distribution channels, stalling the creative economy. These sectoral spillovers amplify the economic damage, affecting employment and productivity across multiple industries.

The cumulative impact on the macroeconomy is substantial. Financial instability within a critical sector erodes overall economic resilience. Consumer spending patterns shift as job losses and service disruptions alter market dynamics. Governments face increased pressure to intervene, either through fiscal support for affected industries or regulatory measures to stabilize markets. Coordinated action is necessary to address these economic vulnerabilities. Firms must adopt pricing strategies that balance competitiveness with financial sustainability. This ensures long-term stability and mitigates the risks of economic strain.

Policymakers should closely monitor pricing practices. Predatory behavior and market consolidation must be addressed to protect jobs and maintain investment confidence. Preserving these factors supports a stable and resilient economic environment. Collaboration through public-private partnerships can drive innovation and infrastructure growth.

These efforts strengthen economic networks and promote sustainable development. Ultimately, the systemic costs of price wars reveal the necessity for prudent market behavior. While short-term price reductions may appeal to consumers, the broader economic consequences highlight the importance of sustainable practices for long-term growth and stability.



CASE STUDIES:

Evidence from various industries highlights the negative outcomes of price wars. These cases show how unchecked competition disrupts markets, weakens profitability, and jeopardizes industry stability.

STREAMING SERVICES

The streaming industry exemplifies the challenges of price wars. Platforms such as Netflix, Disney+, and Hulu reduced subscription fees to capture customers. This approach provided short-term benefits for consumers but introduced substantial challenges. Profit margins shrank as companies prioritized market share over financial stability. Reduced revenues forced some platforms to cut budgets for original content, leading to fewer creative offerings. Competition intensified, creating financial strain that prompted layoffs and project cancellations.

Smaller platforms faced even greater difficulties. With limited resources, many struggled to maintain operations or exited the market entirely. The loss of smaller competitors reduced diversity, limiting consumer options. Over time, the race for lower prices undermined the industry's ability to innovate and sustain growth. However, the strategy has significant drawback:

- **Shrinking profit margins** forced companies to reduce investments in original content. Projects were canceled, leaving creators and production teams without work.
- **The race to offer lower prices** pressured smaller streaming services to exit the market, reducing diversity and consumer choice.
- **Larger platforms introduced ad-supported tiers** to recover revenue, diluting the user experience that initially attracted subscribers.

These outcomes highlight how price wars lead to unsustainable business models, ultimately compromising innovation and service quality.

RIDE-HAILING PLATFORMS

Companies like Uber, Lyft, and Didi Chuxing have engaged in prolonged fare battles to dominate the ride-hailing market. While these strategies initially attracted users, the long-term impacts were severe:

- **Driver incomes declined sharply** as platforms slashed fares to attract customers. Many drivers reported difficulty meeting basic expenses, leading to strikes and protests.
- **Financial strain on the platforms** results into higher user costs over time, reversing the initial benefit of lower fares.
- **Service reliability** suffered as driver dissatisfaction and platform instability grew, leaving consumers with fewer transportation options.

This case demonstrates how price wars destabilize gig-economy industries, creating ripple effects for both service providers and users.

TELECOMMUNICATIONS

The telecommunications sector has experienced significant disruption due to price wars. In markets like India, the entry of Reliance Jio disrupted the industry by offering drastically reduced prices for data and calling services. While the strategy gained market share, the fallout included:

Price wars in the telecommunications sectors of Kenya and India have led to significant financial losses and market restructuring.

INDIA:

The entry of Reliance Jio in 2016, offering free voice calls and low-cost data, triggered a price war that drastically reduced tariffs across the industry. This aggressive pricing strategy led to substantial financial losses for incumbent operators:

- **Vodafone Idea:** In November 2024, Vodafone Idea reported a quarterly loss of ₹71.76 billion (approximately \$850.7 million), attributed to a shrinking user base and intense competition.
- **Industry Debt:** By 2019, the combined debt of India's top three telecom companies had escalated to ₹3.9 lakh crore (approximately \$55 billion), largely due to the prolonged price war and necessary infrastructure investments.

The intense competition led to market consolidation, reducing the number of major operators from over ten in 2015 to just a few by 2019.

KENYA:

In Kenya, the telecommunications sector experienced a price war that began around 2010, leading to significant financial challenges for operators:

- **Telkom Kenya:** The operator recorded an 18 billion Kenyan shilling net loss in 2011, which management attributed to the price war that saw tariffs drop by half in 2010.
- **Market Dynamics:** The aggressive pricing strategies led to reduced revenues and profitability for operators, prompting some to exit the market or merge to sustain operations.

These examples illustrate the detrimental effects of price wars in the telecommunications industry, including financial losses, increased debt burdens, and market consolidation.

- The collapse of smaller telecom operators unable to match Jio's aggressive pricing, leading to reduced competition.
- Consolidation into a few dominant players created quasi-monopolistic market structures, limiting consumer choice.
- Eventually, operators increased prices to cover operational losses, burdening consumers who had become accustomed to low costs.

This case underscores how price wars can drive market consolidation, erode consumer benefits, and create long-term instability.

RETAIL AND E-COMMERCE

E-commerce giants like Amazon and Alibaba have engaged in price wars to outcompete smaller retailers. Their strategies include offering deep discounts during major sales events and subsidizing delivery costs. However, these practices have resulted in:

- The decline of small and medium-sized businesses unable to compete with heavily subsidized pricing models.
- Significant financial losses for e-commerce platforms as they struggle to sustain discount-driven growth.
- Market dependence on a few dominant players, reducing innovation and increasing the risk of monopolistic behavior.

AIRLINES

Low-cost carriers such as Ryanair and Spirit Airlines have historically employed price wars to attract budget-conscious travelers. The intense price competition between Norwegian Air and Ryanair in the European aviation market led to significant financial challenges for both airlines, culminating in Norwegian Air filing for bankruptcy protection.

NORWEGIAN AIR:

- **Financial Struggles:** Norwegian Air's aggressive expansion into low-cost, long-haul flights strained its finances. The airline reported substantial losses, including a net loss of NOK 1.454 billion (approximately \$170 million) in the first half of 2019.
- **Bankruptcy Protection:** In November 2020, Norwegian Air filed for bankruptcy protection in Ireland, citing unsustainable financial pressures exacerbated by the COVID-19 pandemic and the ongoing price wars.

RYANAIR:

- **Profit Decline:** Ryanair experienced a significant drop in profits due to the price war and other factors. In the first half of its financial year ending September 2024, the airline reported an 18% decrease in post-tax profits to €1.79 billion, attributing the decline to lower ticket prices and increased operational costs.
- **Operational Adjustments:** To remain competitive, Ryanair reduced fares, which, while maintaining high passenger numbers, impacted its profit margins. The airline also faced challenges related to aircraft delivery delays, further affecting its financial performance.

This strategy has resulted in:

- Compromised service quality, with airlines reducing amenities to maintain profitability.
- Increased volatility in the industry, with several carriers filing for bankruptcy after prolonged fare battles.
- Higher hidden costs for consumers as airlines implemented fees for basic services like seat selection and baggage.
- These examples illustrate the systemic risks associated with price wars. Industries experience reduced competition, stagnated innovation, and long-term instability, leaving consumers and smaller market players at a disadvantage.

KEY LESSONS FROM CASE STUDIES

Across these sectors, the recurring theme is the unsustainability of price wars. While the strategy may deliver short-term gains in market share, the longer-term consequences are invariably damaging:

- Companies experience financial strain, leading to layoffs, reduced investments, and eventual market exit.
- Consumers suffer from reduced choice, compromised quality, and hidden costs as markets consolidate.
- Industries lose their innovative edge as resources are diverted from R&D to offset revenue losses.

These case studies serve as a cautionary tale. They highlight the importance of sustainable pricing strategies and collaborative market practices to ensure the stability and growth of industries in the long term.

POLICY AND INDUSTRY RECOMMENDATIONS

COLLABORATIVE MARKET PRACTICES

Firms must prioritize collaboration over destructive competition. Industry players should establish pricing standards that discourage unsustainable practices. Ethical competition, focused on value rather than aggressive undercutting, allows businesses to differentiate through quality, innovation, and service excellence. Shared frameworks can protect market health and foster growth for all participants.

VALUE CREATION FOR RESILIENCE

Value creation is essential for market resilience. Companies should invest in innovation and customer-centric solutions to build trust and loyalty. Strong relationships with customers reduce reliance on pricing as the primary competitive tool. Delivering high-quality products and services positions firms for sustainable growth, even in competitive markets.

STRENGTHENING REGULATORY FRAMEWORKS

Governments play a vital role in maintaining market integrity. Anti-predatory pricing laws must be strictly enforced to deter practices that harm competition. Regular monitoring of market dynamics can help identify monopolistic behaviors early, ensuring fair competition. Supporting small and medium-sized enterprises through incentives and grants strengthens market diversity and resilience.

RAISING PUBLIC AWARENESS

Public awareness is critical to curbing the appeal of destructive price wars. Consumers should understand the long-term consequences of excessively low prices, including reduced quality and choice. Businesses benefit from training programs that emphasize sustainable practices and the risks of focusing solely on pricing strategies. Educated stakeholders foster a culture of ethical competition.

EMPHASIZING TRANSPARENCY AND ETHICS

Transparency and ethical standards are essential. Businesses should adopt clear pricing policies that reflect fair value and build consumer trust. Ethical practices enhance corporate reputation and strengthen competitive positions.

POLICY AND INDUSTRY RECOMMENDATIONS

INTERNATIONAL COOPERATION

Global markets demand international cooperation. Harmonized regulations across borders prevent exploitation of jurisdictional loopholes. Collaborative monitoring of digital markets ensures fair competition and deters predatory pricing on a global scale. International alignment reinforces fair practices in a connected economic landscape.

BALANCING COMPETITION AND SUSTAINABILITY

The focus must shift toward balanced competition. Industries thrive when businesses innovate and consumers benefit from diverse, high-quality options. Governments and companies must work together to implement policies that support sustainable practices. By avoiding short-term strategies that destabilize markets, stakeholders can ensure lasting economic stability and growth.

CONCLUSION:

Price wars may attract consumers with lower prices, but their long-term consequences undermine market health and stability. Businesses sacrifice profit margins to compete, which reduces their ability to invest in innovation, sustain quality, or weather economic challenges. Smaller firms without significant financial reserves are pushed out, leaving dominant players to control markets. This reduces competition, limits consumer choice, and creates monopolistic structures that weaken trust and efficiency.

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