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Learning to Compete:
Experimental Evidence from Price Cuts in Urban Tanzania

In this project I study the effect of social norms on competitive strategy in emerging markets. I run a market-level field experiment in urban Tanzania that incentivizes small retail firms to publicly sell a staple food at below-market prices in back-to-back periods. I find that firms initially require a 380% increase in daily profit to lower their prices below nearby competitors by 10-12.5% and a 600% increase to lower prices by 20-25%. Exposure to experimentally induced price competition reduces the additional profit firms need to undercut nearby competitors by 35%. I show this is driven by firms requiring smaller incentives to lower their prices in the second period of the experiment. My study shows how cultural norms internalized into firms' behavior can lead to under-experimentation, inhibiting learning and contributing to competitive inertia.

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1. Introduction

In low-income countries, firms struggle to grow and innovate, contributing to persistent inefficiencies in market structures (Atkin & Donaldson, 2015; Davis et al., 2023; Grant & Startz, 2022). Competition can push firms to lower prices, increase quality, and improve productivity (Jensen, 2007; Jensen & Miller, 2018). However, markets in developing economies exhibit limited price competition, even in sectors where market structures suggest that competition should be present (Bartkus et al., 2022; Bergquist & Dinerstein, 2020). While explanations such as high entry barriers and weak regulatory frameworks have been proposed, a growing body of literature suggests that firm behavior itself plays a crucial role in sustaining these weakly competitive environments.

Recent studies find that firms and workers in some developing economies actively avoid competitive behavior due to social norms and perceived negative business consequences (Banerjee et al., 2024; Breza et al., 2023). Strategy scholars have further explored how firms navigate competitive pressures within institutional constraints, arguing that firms develop heuristics and informal rules to guide decision-making in unpredictable environments (Assenova & Amit, 2024; Otis et al., 2024; Wernerfelt & Karnani, 1987; Zajac & Bazerman, 1991). This raises an important, yet unanswered, question: do firms misperceive the costs and benefits of competition, and can direct exposure to competitive pressures update their beliefs? This project answers it by running a field experiment with urban firms in Mwanza, Tanzania.

The experiment sets the prices of a staple food at below-equilibrium prices for three weeks. It also guarantees firms whose prices were set a positive profit margin by subsidizing their input cost. The experiment tests how firms react when incentivized to publicly undercut competitors. By subsidizing selected firms to reduce their prices for a staple food product, it estimates each firm's private cost of competing and study the effects of competitive shocks on market dynamics.

By creating an environment where firms had to actively engage in price competition, this study tests the extent to which firms' reluctance to compete is real versus perceived. By experimentally changing prices this study builds on evidence generated from prior studies whose treatments incentivize entry into markets or products (Acampora et al., 2022; Annan, 2024; Banerjee et al., 2024; Bartkus et al., 2022; Bergquist et al., 2024; Bergquist & Dinerstein, 2020; Busso & Galiani, 2019). The effects of prices in their study are those mediated by entry and their identification relies on the first-order strength of their treatment. This study changes the price of goods already sold by existing firms, focusing on the intensive margin of competition by examining how incumbent firms react when exposed to increased price competition.

Firms initially required substantial compensation to undercut competitors, but this reluctance declined after exposure to competition. Competitive price pressure shifted demand toward subsidized firms, with varied responses among untreated competitors; some lowered their prices, while others raised them. Firms also updated their beliefs about demand elasticity and the perceived social costs of competition, correcting initial misperceptions. These results highlight that competition itself serves as a learning mechanism, reducing firms' perceived costs of competing and improving their decision-making over time.

2. Contribution to Literature

Markets in low-income economies often exhibit less competition than standard economic models predict. In many settings, firms fail to engage in price competition, even when they operate in dense market structures with seemingly homogenous products (Banerjee et al., 2024; Bartkus et al., 2022; Bergquist & Dinerstein, 2020). This lack of competition is puzzling, given the theoretical predictions that competition should drive prices toward marginal cost and force firms to innovate or exit (Marshall, 2024). While prior research attributes weak competition to structural frictions such as high entry costs or credit constraints (Atkin et al., 2017; Bazzi et al., 2023), an alternative explanation is that firms themselves perceive non-economic costs to competing, such as social or reputational risks (Akerlof, 1980; Beaman et al., 2014; Breza et al., 2023; Bursztyn & Jensen, 2017). This study contributes to this literature by providing direct experimental evidence on whether firms actively resist price competition and, if so, whether exposure to competitive pressure alters their beliefs and behavior.

2.1. Cultural Norms as a Barrier to Competition

A growing body of work in economics and strategy suggests that firms sometimes avoid competitive behavior for reasons beyond immediate profit maximization (Banerjee et al., 2024; Chen & Miller, 2015; Jonsson & Regnér, 2009; Squires, 2024). Breza et al. (2023) and Akerlof (1980) document cases where firms and workers forgo financial gains to comply with social expectations, examples of a long-standing idea that the internalization of social norms into rules of engagement guides behavior (Smith, 1759). In some settings, price undercutting is perceived as unfair or hostile, leading firms to refrain from aggressive competition to maintain business relationships or reputational capital (Basdeo et al., 2006; Chen & Miller, 2015; Covin & Slevin, 1989; Jonsson & Regnér, 2009; Philippe & Durand, 2011). Additionally, Bergquist & Dinerstein (2020) provide evidence that informal collusion can emerge in the absence of formal enforcement, leading firms to tacitly agree on pricing strategies. The treatment allocation is designed to measure the expected profit firms require to break these pricing norms, offering a quantitative measure of the perceived cost of violating competitive expectations.

2.2. Firm Learning from Competitive Exposure

A central question in both economics and strategy is how firms update their beliefs about competition and demand elasticity. In high-income markets, firms are assumed to learn about competition through repeated interaction, refining their strategies based on observed market responses (Anand et al., 2016; Dyer et al., 2018; Hannah & Eisenhardt, 2018). However, these firms often show competitive inertia, their behavior lagging behind what an optimizing model firm might choose (Joseph & Wilson, 2018; Kim, 2021; Lieberman, 1987; Miller & Chen, 1994; Ocasio, 1997) Further, in low-income settings, firms may lack the ability or willingness to experiment with competitive pricing, leading to persistently biased beliefs about market conditions (Aguirregabiria, 2021; Aguirregabiria & Jeon, 2020; Beaman et al., 2014; Busso & Galiani, 2019; Gertler et al., 2024). The experiment tests whether firms in a previously low-competition environment can internalize lessons from competitive price exposure and adjust their beliefs about the benefits and risks of competitive strategies accordingly. If firms initially overestimate the risks of competition but later update their beliefs after seeing demand and competitor responses, this suggests that temporary interventions can have lasting effects on firm behavior.

3. Experimental Design

Research on competition typically relies on administrative or sales data (Allcott et al., 2025; Michel et al., 2024; Taylor & Muehlegger, 2025), while experiments on competition in low-income countries typically rely on entry effects (Annan, 2024; Banerjee et al., 2024; Bartkus et al., 2022; Bergquist et al., 2024; Bergquist & Dinerstein, 2020). The challenge in Mwanza is that firms do not keep administrative or sales data and entry is not the relevant margin to study competition; barriers to entry are low, and the city is already saturated by firms.

To get around these issues, this study uses an experiment that incentivizes firms to lower their prices and collects primary data on outcomes including prices, sales, and input costs. The treatment in this experiment set a firm's price and profit margin for one kilogram of dona maize flour.

3.1. Treatment Price

A treated firm had their price of dona maize flour set for three weeks. The price was a fixed amount per kilogram below the lowest price of dona maize flour the firm thought existed within 100 meters of their location. The relative price was based on the firm's belief about prices, not actual prices, to focus on the firm's willingness to lower prices. Their willingness is based on their beliefs about existing prices, not actual prices. Further, basing the set price off actual prices would bundle information provision into the treatment.

The amount below the lowest price was either 100 or 200 Tanzanian Shillings, which amounted to 10-12.5% and 20-25%, respectively, as firms thought the lowest prices were 800, 900, and 1000 Tanzanian Shillings per kilogram. Firms were randomly assigned to either the 100 or 200 Tanzanian Shilling price cut based on the ward, a small administrative unit, in which they were located.

Wards were randomly assigned to the small or large undercut to balance the number of firms across small undercut and large undercut wards. Wards were randomly ordered and sequentially assigned to the small undercut size, stopping when the total number of firms in small wards more than half the number of firms in all wards.

3.2. Treatment Profit Margin

The set profit margin at a treated firm was randomly assigned conditional on their willingness to sell at treatment prices for varying profit margins.

All firms were told that as part of this experiment they would receive a three-week subsidy on their input costs of dona maize flour contingent on them publicity lowering their price. The experiment team would give them different combinations of price and profit margin and the firm would tell us whether they would sell at each pair. The firm would be offered a random price and random profit margin, and the firm would receive the treatment if they had said they would be willing to sell at that pair.

Each firm was asked, for the lowest price they thought nearby, that minus 100 TSH, and that minus 200 TSH, whether they would be willing to sell at that price for a profit margin of 50 TSH per kilogram, for a profit margin of 100 TSH per kilogram, and up to 300 TSH per kilogram in 50 TSH increments. These sizes were based on firm's responses to the question asked during piloting. The undercut randomization was then revealed to firms as the price they would sell at if they received the subsidy.

A random profit margin was drawn from a distribution of possible profit margins and a firm received a subsidy if they said they would be willing to accept that profit margin to sell at their undercut price. They did not receive a subsidy if they said they would not accept that profit margin to sell at their undercut price.

The distribution of possible profit margins included 50, 100, 150, and 200 TSH per kilogram. These were chosen because they covered the range of profit margins already experienced at firms. Firms were randomly assigned to one of two different profit margin offer distributions, as described in the following subsection.

3.3. Probability Randomization

An ideal experiment would randomly assign all firms to treatment or control, possibly balancing pre-treatment characteristics across the groups.

However, this would only elicit treated firms' willingness to accept a profit margin to sell at treatment prices. To measure this at as many firms as possible I offered the treatment to every firm in the sample.

To approximate a treatment and control group, the experiment randomly varied the distribution of possible profit margins at the firm level, controlling the probability that any given firm would receive a subsidy contingent on their responses to the multiple price list.

Each firm was assigned to either low or high probability. The lot probability profit margin distribution was seven 50s, one 100, one 150, and one 200, while high probability profit margin distribution had one 50, one 100, one 150, and seven 200. These distributions were chosen based on how firms responded during piloting.

To illustrate, consider a firm willing to sell at the small cut for 150 and 200 TSH per kilogram, but not 50 or 100. They will only receive treatment if they their randomly drawn profit margin offer is 150 or 200. If they are randomly assigned to low probability, this will happen with 20% probability, while it will happen with 80% probability if they are randomly assigned to high probability.

How firms are assigned to high and low probability is described in the following subsubsection.

3.4. Probability Randomization Assignment

The probability assignment was designed to help estimate the effect of the treatment on treated firms and the spillover effects of treatment on untreated firms.

Firms were randomly assigned to high or low probability to balance pre-treatment characteristics of firms across high and low probability firms and across low probability firms whose nearest competitor was assigned high probability and low probability firms whose nearest competitor was assigned low probability.

The pre-treatment characteristics are those collected during a listing of all eligible firms. The variables are indicators for whether the firm's price of one kilogram of dona maize flour was less than or equal to 800 TSH, was 900 TSH, or was 1000 TSH or greater, whether the firm sells sembe maize flour, a more expensive staple, whether the firm is in or adjacent to a market, and the ward in which the firm is located.

The design stratified firms by the four characteristics and denoted for each firm its nearest neighboring firm.

First, random assignments that balanced high and low probability firms within strata were added to a set of possible assignments. These balanced pre-treatment characteristics between the expected set of treated firms and expected set of untreated firms.

Low probability firms in each possible assignment were split into those whose nearest neighbor were assigned high probability and those whose nearest neighbor were assigned low probability. A t-test of the mean of each of the pre-treatment indicators except for the ward location was ran, yielding five p-values. Additionally, a joint F-test of the regression of being in the former group on each pre-treatment variable was ran. A possible assignment was kept only if these statistical tests indicated the two low probability groups were balanced across these comparisons. An assignment was kept if the p-value of the F-statistic in the regression was above a level of significance and every t-test was above the same level of significance adjusted for the number of comparisons. The design used a 5% level of significance and had five comparisons, so each p-value was above $0.25 = (0.05)(5)$. This balanced pre-treatment characteristics between the expected set of untreated firms whose nearest firm was treated and the untreated firms whose nearest neighbor was untreated.

The assignment implemented in the experiment was chosen at random from the resulting set of assignments that balanced both comparisons in expectation.

3.5. Implementation of Treatments

3.5.1. Setting the Price

One part of the treatment consisted of setting the price of dona maize flour at treated firms. Treated firms publicly posted the set price of dona maize flour available at their store. These prices were based on undercut sizes of 100 and 200 TSH per kilogram less than the lowest price the firm thought nearby. The undercut sizes were decided to mimic the spread of the prices of kilogram of dona measured during the listing, 800, 900, and 1000 TSH. A member of the research team affixed copies of the price sign to treated firms one week after baseline, at which the three-week treatment period began. A sign translated to "Dona Flour/ 900 TSH per Kilo" is shown in Figure 1.



Figure 1: Treatment Price Sign

3.5.2. Setting the Profit Margin

One part of the treatment consisted of setting the profit margin of dona maize flour at treated firms. Treated firms had their input cost of dona maize flour subsidized to a level to give them the set profit margin given their set price.

During the delivery of the price sign a member of the research team also delivered the first subsidy on the dona maize flour the firm had bought since the baseline survey. The firm was instructed to call a member of the research team after they restocked during the three-week treatment period and the member of research team visited the firm to confirm the firm bought dona maize flour, measured how much they bought and the price they bought it at, and then subsidized their cost down according to their set price and profit margin.

4. Setting

The study took place in Mwanza, Tanzania's second-largest city and a major commercial hub, an ideal setting to study price competition in urban retail markets. One of its most important staple goods is dona maize flour, which provides over 30% of household caloric intake (Cochrane & D'Souza, 2015). The market for dona appears highly competitive at first glance; 988 firms sell it across Mwanza's dense commercial areas, with the median firm facing four direct competitors within 100 meters. Barriers to

entry are low, as most businesses are small kiosks or market stalls and informality is high (*Tanzania - Informal Sector Enterprise Survey*, 2023). There is little to differentiate dona across firms; the maize's origin does not factor into its quality, as it is sold from unlabeled, unbranded 50 kilogram sacks.

Despite these competitive conditions, several items suggest that the market is not fully competitive. First, firms rely on rule-of-thumb markups instead of pricing based on competitors. At baseline, only 2% of firms reported considering competitor prices when setting their own, while all firms cited transportation and input costs. Second, fewer than 1% of firms posted prices publicly, reducing the information available for firms and customers to learn about prices. Finally, profit margins varied widely, with some firms earning as little as 0 Tanzanian Shillings per kilogram, while others earned over 200 TSh/kg, inconsistent with competitive pricing (Figure 2).

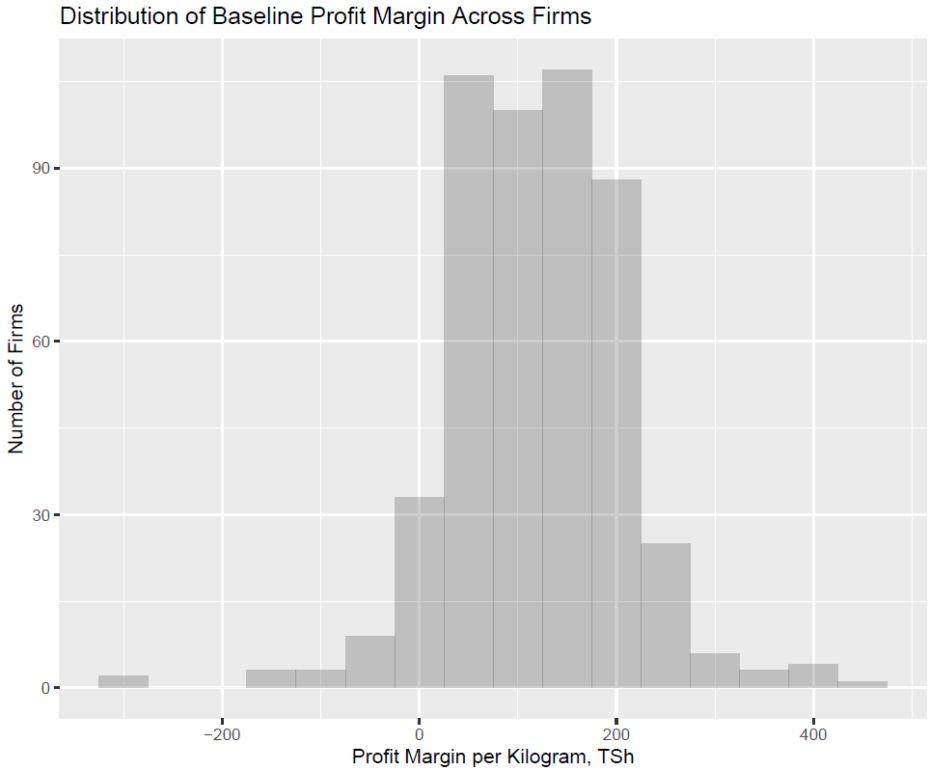


Figure 2: The Distribution of Baseline Profit Margin Across Firms

5. Results

5.1. Measuring the Social Norm

I calculate the change in daily profits that firms need lower their prices by combining data on their price and sales, their beliefs about demand elasticity, and the lowest profit margin they are willing to accept to sell at the treatment price. At baseline, firms require large compensation to publicly undercut each other, and this increase is larger the larger the undercut (Figure 3). By endline, however, they require less to publicly undercut each other (Figure 4). This is driven by their increased willingness to undercut rather than changes in beliefs about customer price sensitivity (Figure 5). This suggests that exposure to competition led firms to update their perception of the risks and rewards of undercutting; they decreased their perception of the risk and increased their perception of the reward.

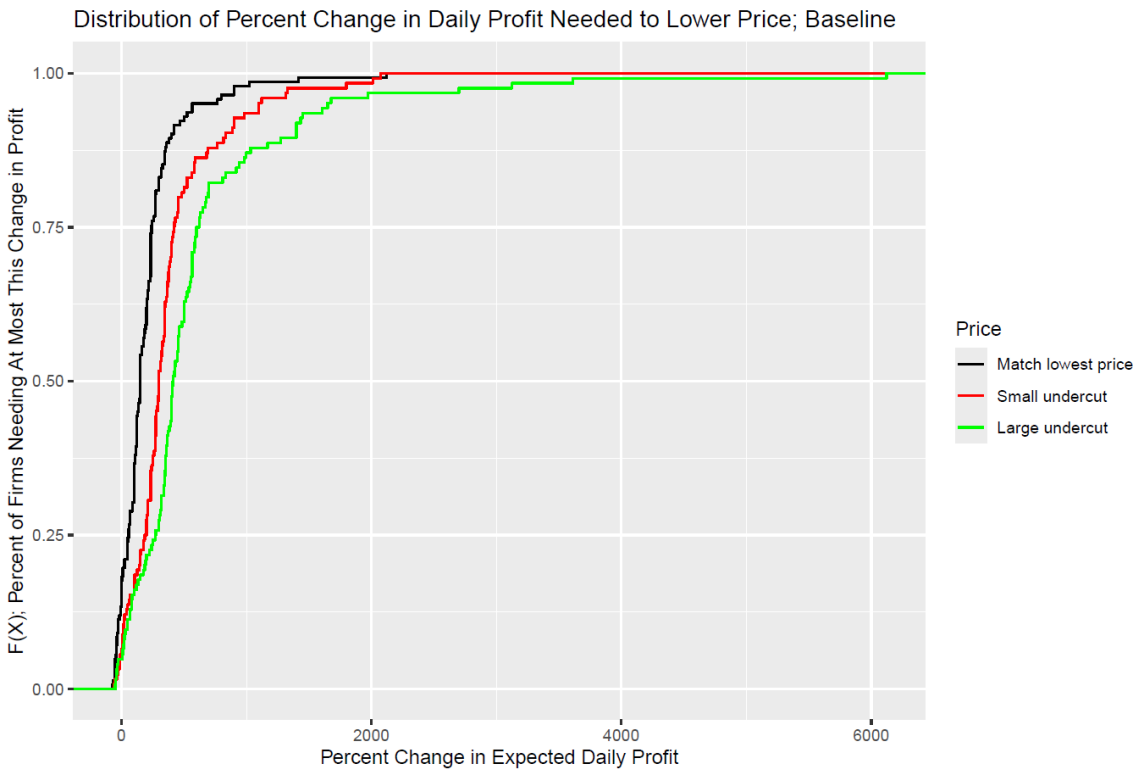


Figure 3: Baseline Compensation to Publicly Compete

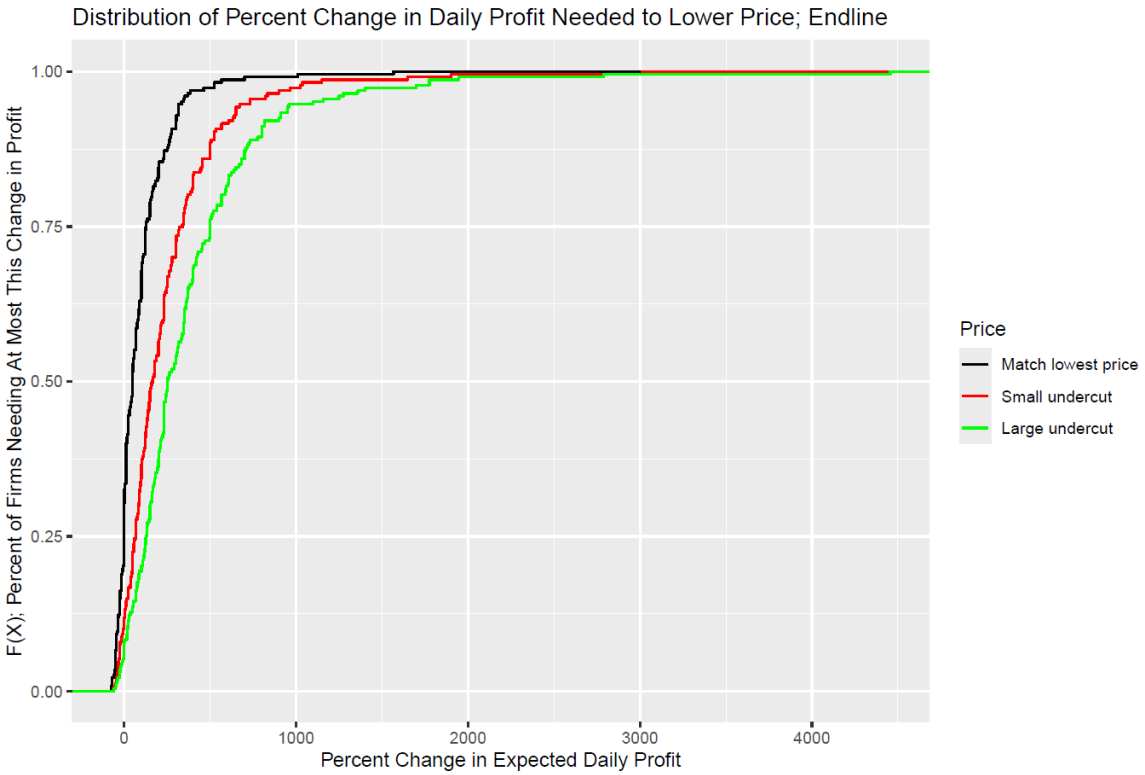


Figure 4: Endline Compensation to Publicly Compete

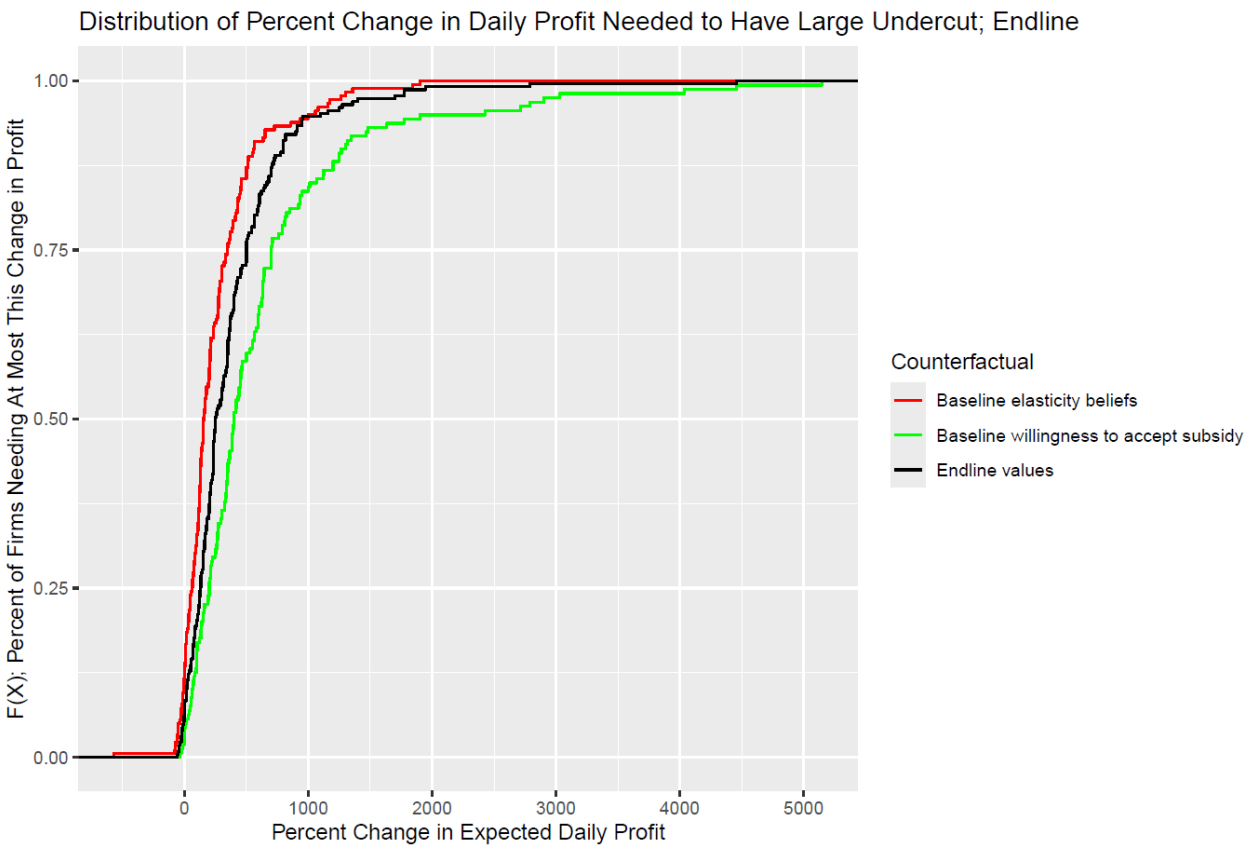


Figure 5: Counterfactual Endline Compensation to Publicly Compete

5.2. Competitive Prices Affect Sales and Profit Margins

Subsidized firms saw a significant increase in daily sales volume (Figure 6), while untreated firms near subsidized firms experienced either decreases in customers or increases in customers relative to unsubsidized firms (Figure 7). Exposure to price competition sped up responsive behavior among unsubsidized firms, leading to some increasing their profit margin and some decreasing their profit margins (Figure 8).

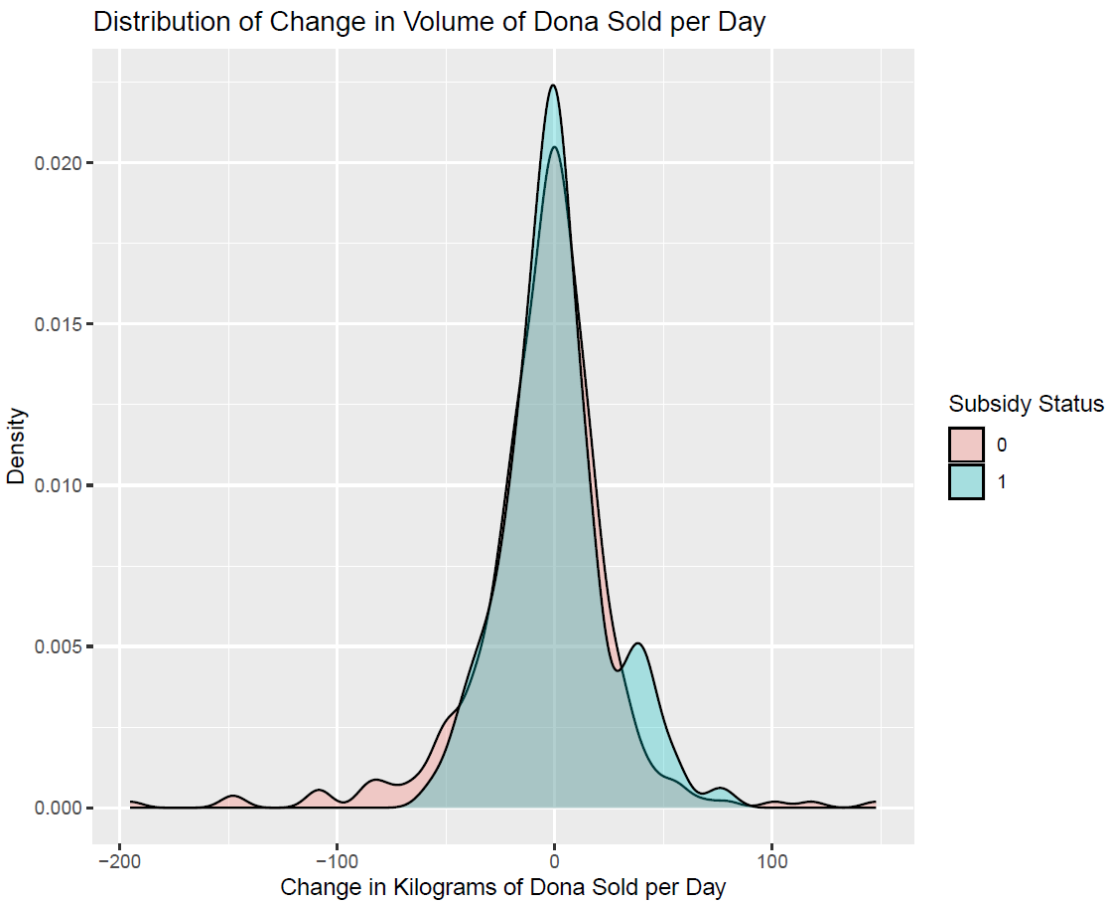


Figure 6: Change in Sales Volume Between Treated and Untreated Firms

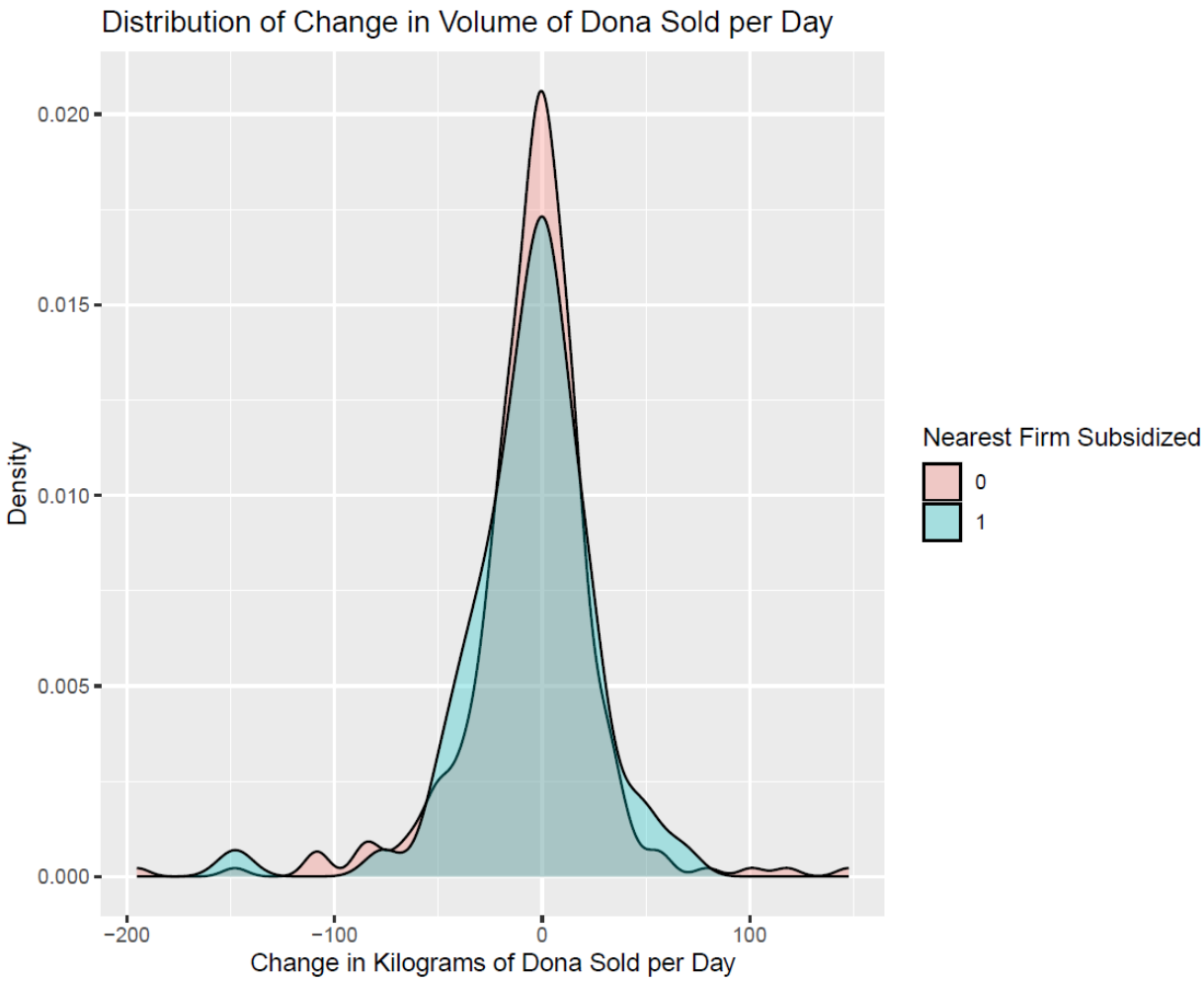


Figure 7: Change in Sales Volume Between Exposed and Unexposed Untreated Firms

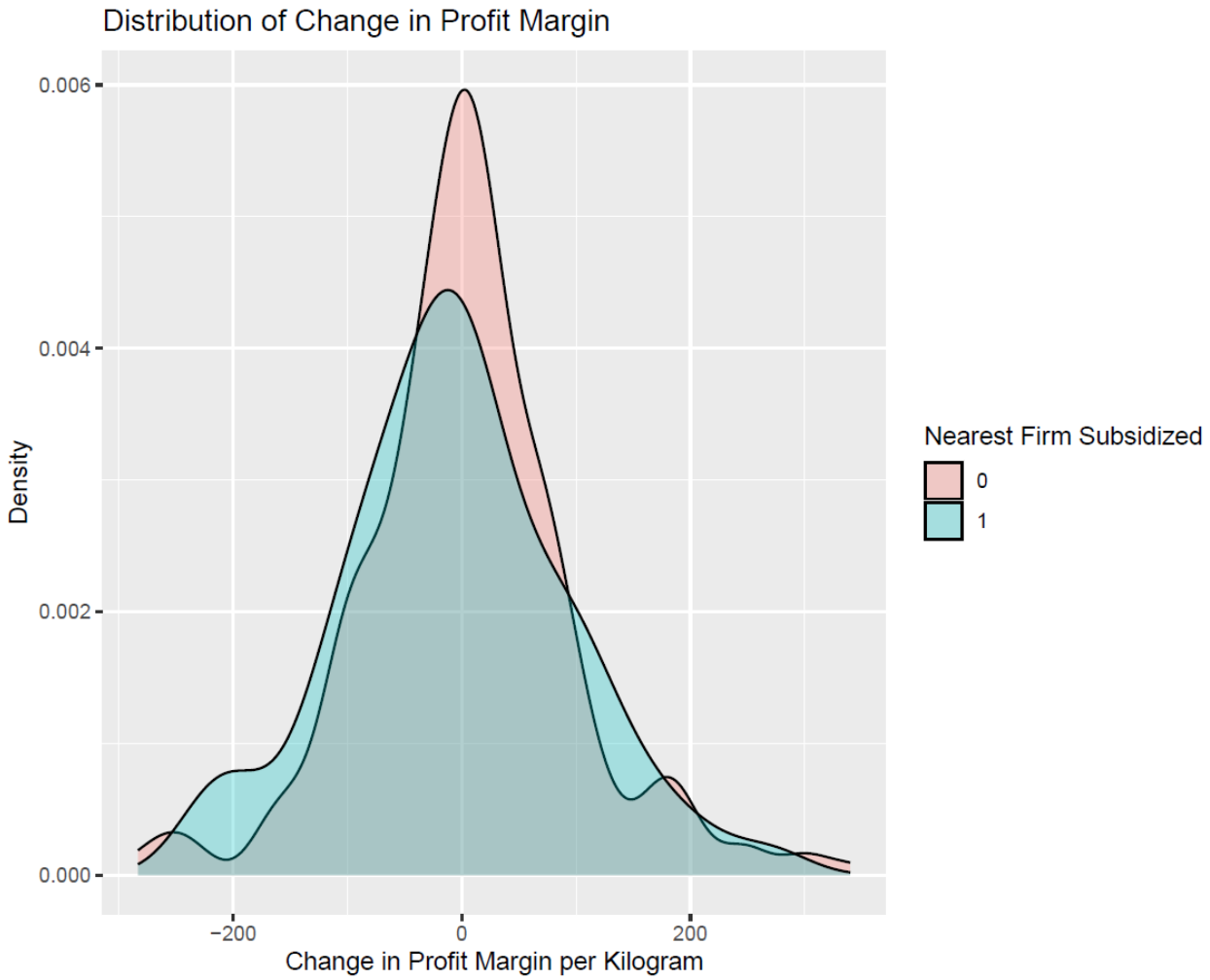


Figure 8: Change in Profit Margin between Exposed and Unexposed Untreated Firms

6. Discussion

These findings speak to longstanding open questions in both economics and strategy. Prior research suggested that economic agents may forgo competition due to social constraints (Banerjee et al., 2024; Breza et al., 2023; Squires, 2024), but it is unclear whether this reluctance is a response to real or misperceived social norms; responses to misperceived social norms can have stark consequences on how society operates (Bursztyn et al., 2020). This experiment provides causal evidence that firms systematically misjudge the risks of price competition but can update their beliefs when exposed to real market conditions.

The study also connects to the strategy literature on competitive learning. Firms' initial resistance to price competition and rule-of-thumb pricing aligns with research on heuristic decision-making in uncertain environments (Huang et al., 2022). However, the results suggest that firms do not merely rely on fixed heuristics; they can from market forces in response to their own and to others' actions and adjust their strategies accordingly. This contributes to ongoing debates about how competitive inertia is driven by structural barriers and by firm-level decision biases (Miller & Chen, 1994; Otis et al., 2024).

7. Conclusion

This study provides experimental evidence that price competition is a learning process, not just a market outcome. Firms in Mwanza initially resisted price undercutting, but after experimental exposure, they updated their beliefs about the costs and benefits of being competitive.

From a policy perspective, these findings suggest that increasing competition requires more than just regulatory enforcement; it also requires interventions that help firms re-evaluate their beliefs about competition. Future research should explore whether misperceptions apply to other competitive dimensions, such as product differentiation and service quality.

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