The Role of Startups in Disrupting Perfect Competition: Case Studies from Kenya

OMARI PETER KEBIRO[1], DR. YASIN GHABON[2]
[1,2]*Department of Business and Economics, Maseno University*

Abstract- ***The study explores how startups affect traditional markets that are believed to function under perfect competition, with a special look at examples from Kenya. For a market to be perfect competition, there must be many buyers and sellers, all products must be of the same type, everyone has the same information and it should only take little to enter or exit the market. Any company that is creative, flexible and tech-savvy may be able to dispute these assumptions because they rarely fit the actual marketplace. By using digital platforms, mobile tech and different business models, Kenya now has a thriving startup market that has affected banking, transportation and agriculture. To find out about how they have adjusted pricing, altered competition and made their services different, the study looks at three particular startups: Twiga Foods in agriculture, Safeboda in motorbike taxis and M-Pesa in finance. That leads us to reconsider the usual aspects of perfect competition which state that companies are price takers and only supply and demand affect the market. Furthermore, the study looks at the problems that arise when trying to support new ideas and still ensure fair competition, exploring how these changes influence markets, laws and regulations. Even though startups make markets more efficient and accessible, their results show that they may become powerful, so it's important to continue strict regulation. Apart from suggesting ways to ensure innovators and competitors coexist, this article shows how startups affect the organization of markets in emerging countries.***

Indexed Terms- ***Perfect Competition, M-Pesa, Safeboda, Twiga Foods, Startups.***

I. INTRODUCTION

A market structure called perfect competition is distinguished by having numerous buyers and sellers, equal items, complete details and no barriers to entry or exit. Organizations working in these markets take the market price and typically their long-term economic gain is zero (Stigler, 1957). However, because of the impact of technology, flaws in the market, and strategic corporate behaviour, real-world markets frequently diverge from these idealized conditions (Porter, 1980).

Startups, which are frequently small, creative, and flexible businesses, have the power to significantly alter these marketplaces. The emergence of a thriving startup ecosystem in Kenya, especially in the technology sector, has shown how new players can challenge long-standing market conventions. To differentiate their offers, cut down on inefficiencies, and challenge the dominance of established competitors, these companies frequently make use of digital platforms, mobile technologies, and innovative business models. The introduction of product and service diversity by startups can transform consumer habits and changes the way competitors set their prices, as it can change what's considered a competitive market (Schumpeter, 1942). The study looks at how the actions of Kenyan entrepreneurs are affecting these markets, the focus being on major industries where competition was assumed to be ideal. Choosing a few cases, we will explore how entrepreneurs change existing markets and the overall effects this has on public policy, startups and market structures.

II. LITERATURE REVIEW

For a long time, research in economics has noted that perfect competition is not the same as actual markets. What's more, although public interest helps

determine how money should be spent, it does not escape criticism from many academics. Although Baumol et al. (1982) demonstrated that firms can charge more when customers demonstrate a preference for their goods due to differences and branding, Stigler (1957) noted that perfect information never exists in the real world.

Start up businesses are related to the "creative destruction" theory first proposed by Joseph Schumpeter in 1942. In his opinion, the creativity of new firms can change current market systems and help the economy expand. Because there is no strong reason for any firm in perfect competition to introduce new products or push the market forward, this situation stands in contrast to the progress traditionally linked to innovation.

Mbiti and Weil (2011) looked at how M-Pesa and mobile money have transformed banking systems in Kenya and on the continent. It was pointed out that technological improvements would likely impact how markets behave and which people are included. Ndemo and Weiss (2017) explored how Kenya has seen an entrepreneurial revolution, thanks to innovative models that many digital firms apply. It was shown through these studies that technology changes are helping to restructure markets in developing countries.

M-Pesa's and similar mobile money services' big effect in Kenya, as investigated by Mbiti and Weil (2011), was studied on the African landscape. They revealed that technological changes can have a major impact on the patterns and inclusiveness of the market. Ndemo and Weiss (2017) added to their discussion of Kenya's entrepreneurial society by highlighting new digital companies and the innovative business models they are launching. The research backs the idea that technology drives rapid changes in developing countries' markets.

III. METHODOLOGY

This study utilizes a qualitative case study approach to examine the role of startups in disrupting markets assumed to operate under perfect competition. Case studies are a suitable methodology for understanding complex, real-world phenomena in context (Yin, 2009). The selection of cases was guided by purposive sampling, focusing on startups that have introduced significant technological or organizational innovations in traditionally fragmented or informal markets in Kenya.

Based on their influence, accessibility to secondary data, and fit with the study's goal, three startups were chosen: M-Pesa in the financial services industry, Twiga Foods in the agricultural distribution industry, and Safeboda in the transportation industry. Information was gathered from previously conducted academic research, company websites, journal papers, and publicly accessible reports.

The examination is on the type of disruption these firms have brought about, how their business models deviate from the ideals of perfect competition, and how much they have changed the dynamics of the market. This method makes it possible to find trends in many industries and to theoretically apply them to market structure models in economics (Eisenhardt, 1989).

Case Studies

A. Safeboda and the Motorcycle Transport Market

In the past, Kenya's motorbike taxi (boda boda) industry has been a highly unregulated market with numerous service providers providing identical services, uneven pricing, and little governmental monitoring. This arrangement nearly matched the traits of ideal competition, which include numerous providers, low barriers to entry, and little product differentiation. By launching a smartphone app that links customers with pre-screened motorbike taxi drivers, Safeboda joined the industry. Transparent pricing, user reviews, and GPS monitoring features are all made possible by the app, which boosts consumer safety and trust. To differentiate its drivers from the general market, Safeboda also makes investments in driver training and provides them with luminous jackets and helmets (Safeboda, 2021).

Safeboda overcame the usual informality of the industry by setting standards for quality and price. As opposed to what perfect competition suggests, it made customers value brands more and helped the company gain some amount of market force (Ndung'u, 2020). You can use Porter's (1985)

differentiation strategy and Schumpeter's (1942) theory of market transformation to explain this disruption.

In addition, having digital records and cashless payments allowed Safeboda to use data to guide their decisions and therefore act as a business that collects logistical information as well as offers a service. Ndemo and Weiss (2017) argue that because Safeboda operates like a platform, it benefits from advantages shared by organizations functioning in oligopolistic or monopolistic environments.

B. Twiga Foods and Agricultural Distribution

The major problem in Kenya's agricultural markets is that they have been inefficient due to issues like supply chain disruptions, small segmentation and changes in farm-gate prices. It is common for smallholder farmers to have trouble getting to markets, while merchants find they have to contend with shaky prices and scarcity. Characteristics of perfect competition, including many consumers and sellers, plus no product variations, have been observed in these traits. Using their digital solution, Twiga Foods linked farmers directly with those who buy their products. Removing the middleman helps the business cut transaction fees and make sure the supply is steady. Barrett et al. (2020) state that merchants are able to get what they need when they need it and farmers are certain they will sell their crops on a reliable market at good prices.

To improve its operations, the business relies on data analytics, digital payments and smartphone apps. Thanks to its logistics system, this model avoids food waste problems common in standard chains and ensures timely delivery. Because of economies of scale and scope, Twiga Foods cannot easily conform to traditional ideas about perfect competition (Ndemo & Weiss, 2017).

Furthermore, Twiga achieved product and service variation by standardizing the produce and giving merchants access to credit. Currently, the platform offers infrastructure and financial products in addition to serving as a distributor. This suggests the industries are likely to be either oligopoly or monopolistic competition, since a small group of companies lead through their strong focus on efficiency and innovation (Porter, 1985).

Twiga Foods has improved supply chain integration, changed buyer-seller interactions, and formalized a formerly unorganized market by coordinating incentives along the agricultural value chain (Barrett et al., 2020). The startup's business plan demonstrates how technology may be used to solve market imperfections and produce more egalitarian results.

C. M-Pesa and the Informal Financial Sector

Prior to M-Pesa, Kenya's financial system was divided between conventional banking services and a vast unorganized sector that included family networks, cash-based transactions, and rotating savings and credit associations, or ROSCAs. Particularly in rural and low-income areas, these systems had little reach, poor security, and limited dependability (Mbiti & Weil, 2011).

M-Pesa, which was first made available by Safaricom in 2007, transformed financial inclusion by allowing users to send, receive, and store money using simple mobile phones. The service increased access to financial services and significantly decreased transaction costs by avoiding the conventional banking system (Jack & Suri, 2014). By removing geographical restrictions and enabling real-time payments, M-Pesa successfully brought millions of Kenyans into the official banking system.

From an economic standpoint, M-Pesa introduced notable difference in the provision of financial services, upending the presumptions of perfect competition. Due to network effects and high brand loyalty brought forth by the platform's ubiquity, ease, and security, Safaricom has significant market power (Morawczynski, 2009). As a result, M-Pesa started to offer a wider range of services such as making digital payments, managing savings and offering microloans (Ndemo & Weiss, 2017).

M-Pesa follows Schumpeter's (1942) belief that innovation drives significant transformation. Besides boosting how money is spent, M-Pesa made it possible for more financial products and services to reach communities that did not have formal bank accounts.

IV. DISCUSSION

From these cases, we can see how entrepreneurs use new ideas and technology to make their products stand out, gain short-term power in the market and benefit from knowledge that other firms lack. Market contestability, according to Baumol et al. (1982), was shown by Safeboda, which successfully turned a messy transportation market into a platform economy model with more trust and openness. Twiga Foods enhanced logistics and gathered demand so that they could fix inefficiencies in supplying agricultural products, following Porter's (1985) value chain theory. M-Pesa made it simpler and easier for people to transfer funds which upset the usual balance of properly competitive financial markets, as Mbiti and Weil explained in 2011.

As a result, by organizing unrecorded activities with technology, companies enhanced data analysis, made their finances easier to understand and made compliance with rules clearer. As a result, the platforms gave the companies a leading role in their market and made things harder for competitors. Based on Ndemo and Weiss (2017), this calls for a re-evaluation of usual market views and highlights that modern competition policies are important in rapidly digitalizing countries.

Some new issues resulting from these disruptions include market dominance, issues with current rules and possible monopoly from certain platforms, despite also boosting access and how efficient services are. As Schumpeter (1942) thought that disruption in markets causes growth and raises regulatory issues, Kenya's experience demonstrates the constant connection between innovation and rules in competition.

V.CONCLUSIONAND RECOMMENDATIONS

In Kenya, innovation in startups demonstrates how markets often regarded as perfectly competitive can change thanks to new ideas. Safeboda, Twiga Foods and M-Pesa are just some of the startups making the informal sector official, more efficient and creating more kinds of products and services. When new standards are made, transaction fees decrease and data and digital tools help add value differently, these innovations go against the expectations of perfect competition which involve the same products, no market power and full information (Mbiti & Weil, 2011; Ndemo & Weiss, 2017).

According to Ndung'u (2020), Twiga Foods made it easier for farmers to sell goods by letting them deal with buyers directly, improved the supply chain and reduced wastage, whereas M-Pesa transformed the financial industry by providing mobile services that skipped traditional banks. Bringing order to the motorbike taxi industry by standardizing services made Safeboda's launch of a mobile platform an essential innovation that improved safety and trust (Mbiti & Weil, 2011).

However, startups sometimes grow to the point where they control a lot of the industry which could keep others out and demonstrate a trend toward oligopoly or monopoly. Thanks to its development, we are seeing challenges concerning dominance, data privacy and fair access, along with creative destruction. A shift from the ideals of perfect competition, which hold that firms are price takers, and that competition is based only on price, is shown in the emergence of platforms like M-Pesa, which have grown to be dominant players in their respective industries (Schumpeter, 1942; Porter, 1980). As a result, the disruption these firms produce may result in concentrated power rather than increased competition, which could limit the possibility for future innovation.

Officials should adjust their regulatory and competition laws to match the difficulties digital businesses experience, so they can control these dynamics. Regulators should realize that companies in this industry often play several roles, serving both as service providers and as gatekeepers which leads to difficulty conducting market evaluations the usual way (Porter, 1980; Baumol et al., 1982). More grants, incubation and better digital resources should be the government's and development organizations' strategy for encouraging inclusive innovation. Being freer to enter allows young businesses to build up with bigger firms and compete equally in such industries.

In addition, solid rules for protecting data must be put in place when startups use user information to earn profits to secure openness, equity and the rights of those using these platforms (Jack & Suri, 2014; Morawczynski 2009). In addition, regulatory agencies should examine whether platforms are neutral toward all businesses so new competitors have a chance to participate in the market (Morawczynski, 2009). Competition regulators are encouraged to carefully watch digital entrepreneurs in various industries so they can help protect fair competition and prevent oligopolies or monopolies from taking over. To examine how rivals behave and how much power a few companies may have, digital reviews and market conduct studies can be done (Schumpeter, 1942; Porter, 1985).

Furthermore, helping people understand digital platforms, various financial instruments and data rights will move the advantage of market justice forward. Gaining insight into platform-based companies' business models is required for creating good and helpful policies (Ndemo & Weiss, 2017). For innovation to grow in many industries and places while keeping standards and values the same, public-private partnerships and industry consortia play a key role. Collaboration between firms will address the risks linked to powerful markets and help bring about new developments.

In conclusion, startups are strong forces for growth and change, but their long-term viability and the good of society rely on a governance ecosystem that is flexible, inclusive, and progressive. Other emerging economies negotiating the nexus of innovation, competition, and policy can learn a lot from Kenya's experience, which emphasizes the necessity of regulatory frameworks that can strike a balance between innovation and accessibility and market fairness (Mbiti & Weil, 2011; Schumpeter, 1942).

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