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Common Error No. 53 [1]

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53. "Competition means companies selling shoddy goods to keep prices down and make more profit."

Companies which responded to competition like this would soon find themselves on the skids. Customers have a choice, and are unlikely to prefer shoddy goods to quality ones. The firm which has a consistent reputation for quality is more likely to survive, to prosper, and to show profits than the one which offers its customers inferior products.

Of course competition keeps prices down. For equal quality customers will prefer lower prices if they can find them. This means firms have to continually look out for ways keeping costs down by more efficient production methods, such as making better use of labour and machinery. But if they cut quality, they cannot expect their reputation to bring in new customers, or to encourage the old ones to come back for more.

In most markets there is a demand for different variations of products sold at different prices. Some prefer the top-of-the-range item, even if it costs more. Others choose to make do with the less classy variant that comes in at a lower price. Different firms will exploit different market niches, choosing to concentrate on a particular sector of the market. But any who try to trick customers into buying shoddy and inadequate goods will find their market share plunging.

Far from encouraging shoddy goods, competition constantly spurs firms to improve their quality as well as their efficiency, to show customers that they represent good value. The market works in an evolutionary way. Firms with an advantage prosper, whereas defective or inadequate ones are counted out. An examination of durable and consistently profitable firms shows that these are not the ones that tried to make quick profits on shoddy goods, but ones which maintained a long-term reputation for quality and value.

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