

THE RELATIONSHIP BETWEEN COMPETITION ENVIRONMENT AND QUALITY OF SERVICES: A MICROECONOMIC ANALYSIS OF THE ACTIVITIES OF SERVICE ENTERPRISES

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Abstract

In this scientific article the relationship between the competitive environment and the quality of services in the service market is analyzed from a microeconomic approach. The level of competition between firms in the service market has a direct impact not only on price policy, but also on service quality, innovation and consumer satisfaction. The study conducts a theoretical analysis based on market structure, service differentiation, demand elasticity, and profit maximization model. It is also substantiated that the increase in the quality of service is the main factor forming the competitive advantage.

Keywords: Competitive environment, quality of service, microeconomic analysis, elasticity of demand, market structure, differentiation.

Introduction

Under conditions of market economy, the service sector is one of the fastest growing sectors of the economy. The services sector has a high share in GDP and holds an important role in employment and income generation. As the competitive environment intensifies, the enterprises pay special attention not only to the price factor, but also to the quality of service and the level of customer satisfaction.

According to microeconomics theory, firms seek to maximize profits. In the service market, however, long-term sustainable profits are often provided through service quality and consumer loyalty. In this regard, the purpose of the study is to theoretically substantiate the economic relationship between the competitive environment and the quality of services.

LITERATURE REVIEW ON THE TOPIC

The foundations of competition theory were developed by Adam Smith, who argued that in conditions of free competition, resources are allocated efficiently. Later, Alfred Marshall scientifically substantiated the mechanism of price formation through the supply and demand model. Market structure and imperfect competition theory were developed by Edward Chamberlin and Joan Robinson, who showed that in conditions of monopolistic competition, differentiation of products (or services) plays an important role. The concept of service quality is widely studied in the field of marketing and management. In particular, Philip Kotler argues that quality of service is the main factor in consumer satisfaction. In modern research, service quality is assessed as an important source of competitive advantage.



BASIC SECTION

1. Competition Environment and Market Structure

The following market forms are segmented into the service market:

- Complete Quotes
- Monopolistics raqobat
- Oligopoly
- Monopoly

In practice, there is more monopolistic competition in the service sector. Many firms in this context offer similar but differentiated services. The differentiation is realized through service quality, brand, location, service level and added amenities.

2. Service quality and requirement elasticity

As the quality of service increases, consumers' demand for this firm increases and price elasticity decreases. This allows the firm to set a higher price. According to the microeconomic model:

- High quality → Shift of demand curve to the right
- Consistent Revenue → Consumer Loyalty
- Differentiation → Competitive Advantage

3. Profit Maximization and Quality Investment

A firm can make a profit by reducing costs in the short term. Investing in quality in the long run, however:

- Increases consumer loyalty
- Expands Market Share
- Makes it harder for competitors to enter

Thus the quality of service is manifested as a strategic factor in a competitive environment.

4. Positive and negative effects of competition

Pros:

- Properties of oshadi
- Innovation will power
- Prices are affordable

Cons:

- Excessive price competition can lead to quality degradation

There is a possibility that small businesses will be squeezed out in the market

ANALYSIS AND RESULTS

1. Theoretical-microeconomic analysis

On the basis of a microeconomic model, the relationship between the competitive environment and the quality of service in the service market can be explained as follows:

a) Analysis through the Demand Function

Quality of service (S) is considered as the factor directly affecting the volume of demand (Qd):



$$Q_d = f(P, Y, S, D) \quad Q_d = f(P, Y, S, D) \quad Q_d = f(P, Y, S, D)$$

P—price, Y—revenue, S—quality of service, D—other factors.

Improved service quality leads to a shift of the demand curve to the right. This means that more consumers will be attracted at the same price level. As a result, the firm's revenue increases.

b) Analysis in the context of monopolistic competition

The service market is often dominated by monopolistic competition. Under these conditions:

- Firms differentiate their services through differentiation;
- Quality increase will reduce price elasticity;
- While the economic benefits tend to zero in the long run, firms with higher quality will be able to earn higher returns than normal profits.

In market segments where competition is intense, quality of service becomes a strategic factor.

2. Applied (conditional empirical) analysis

On the example of the activities of service enterprises, the following observation results can be determined:

Raqobat Darajasi	Quality of service	Substantiated Size	Market Share
Low	Average	Stable	Limited
Medium	High	Growers	Expander
High	Extreme	Sustainable-Growing	Robust

The results of the analysis show:

- As the level of competition increases, firms are forced to improve the quality of service.
- Quality improvement strengthens consumer loyalty.
- Firms that invest in quality will have stable returns in the long run.

c) Balance between price and quality

In the short term, lowering the price can increase demand. In the long run, however, the degradation of quality:

- brand depreciation,
- Loss of the consumer,
- Leading to a decrease in market share.

Therefore, the optimal strategy is to maintain a balance between price and quality.

RESULTS

Based on the theoretical and practical analysis, the following scientific results were formed:

1. The competitive environment in the service market is the main driving factor for the increase in service quality.
2. The quality of the service increases the volume of demand and lowers the elasticity of the price.
3. The strategy of differentiation is the most effective tool in the conditions of monopolistic competition.
4. Quality-oriented investments provide long-term profit maximization.
5. A healthy formation of a competitive environment serves to increase consumer well-being.



CONCLUSION

The results of this study show that there is a direct and stable economic relationship between the competitive environment and the quality of service in the service market. According to microeconomic theory, enterprises operating in conditions of monopolistic competition compete not only through the price factor, but also through service differentiation. It is the main means of service quality differentiation that serves to strengthen the position of the enterprise in the market. The analysis shows that as the level of competition increases, businesses are forced to improve the quality of service in order to attract and retain consumers. This process results in the following economic results:

- increased demand volumes and a shift of the demand curve to the right;
- a decrease in price elasticity and the formation of consumer loyalty;
- ensuring a stable income stream in the long term;
- emergence of a competitive advantage in the market.

Also, the quality of service will be manifested as an intangible asset for the enterprise. High quality level builds up brand reputation, positive image and consumer trust. This will expand the market share of the enterprise as well as make it more difficult for new competitors to enter. From a microeconomic perspective, quality-oriented investments may initially increase costs, but in the long run, they serve to optimize average overall costs and maximize profits.

However, excessively intense price competition may in some cases result in a decrease in the quality of the service. Therefore, service enterprises must maintain an optimal balance between price and quality in strategic management. When a competitive environment is created in a healthy and level playing field, it can encourage innovation, increase the diversity of services, and serve to enhance consumer well-being. In general, the key to long-term success in the service market is to compete not only on price, but also on the basis of quality, innovation and a customer-oriented strategy. Service quality, being a result of a competitive environment, is also a development factor. In this regard, service enterprises should pay special attention to improving the quality management system, improving the qualifications of personnel and studying in depth the needs of consumers.

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