

# Dq1 e-activity and dq2 competitive advantage

[Business](#), [Management](#)



E-Activity and Competitive Advantage QD1 Activity: E-Activity The five competitive forces that shape strategy Porter (2008a) identified the five competitive forces that shaped strategy as the threat posed by new entrants, the intensity of rivalry, threat posed by substitutes, the bargaining power of buyers, and suppliers' bargaining power. Hill and Jones (2009) identified the risks posed by new entrants and substitute products on an existing firm's profits and market share (p. 43). On the other hand, Porter (2008b) noted, that industries characterized by suppliers possession of bargaining powers were less attractive (p. 13). Conversely, the bargaining power of buyers had an effect on an industry's competitive pricing and consumer's demand for better services, which affects the strategy of a firm (Porters, 2008b, 14). In this case, firms in the industry where customers have bargaining power experienced instances whereby consumers pressed for price reductions. Finally, the rivalry influenced the profitability of firms in an industry depending on the intensity of the rivalry and the basis of a firm's rivalry (Porters, 2008b, 18).

#### Online Auction Industry

The online auction industry experiences robust growth due to the ongoing global internet and technological innovations although Yahoo, Amazon, and eBay are the most dominant firms in the industry (Bajari & Hortaçsu, 2004, p. 459). Nevertheless, the availability of online auction software in the industry, coupled with the low costs of establishing start-ups and cheap hosting services available, pose a threat of new entrants into the industry. In effect, the fact that the cost of start-ups in the industry is cheap makes the bargaining power of suppliers low in the online auction industry. On the other

hand, buyers in the industry hold high stakes in a company's profitability and success due to the bidding platform that the industry provided (Pinker, Seidmann, & Vakrat, 2003, p. 1457). In this case, buyers will control a firm's strategy in the online auction industry since they have an option of buying the same commodities online from other dealers at a price of their choice. On the other hand, rivalry amongst firms in the industry results from the bidding platform offered, which brings intense rivalry (Stafford & Stern, 2002, p. 135). Finally, other resellers and auctioneers that are not internet based pose the substitutes' threat in the online auction industry.

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DQ2: Competitive Advantage

Mergers for Company Growth and Profits Maximization

Small businesses in the online industry face challenges in terms of market share and lack of a brand name in the industry. In effect, it is difficult for small businesses to gain customer loyalty and a large market share, which will enable the companies make maximum profits. Therefore, a small business should use strategies that will enable the business make profits and experience growth. The best strategy in the case of a small business in the online auction industry will be through a merger with another player in the industry and especially with one of the market leaders, which will expand the market of both businesses (Hunt, 2009, p. 7). In addition, the business resulting from the merger will offer customers a wide range of products and realize economies of scale (Kambil & Heck, 2004, p. 187). In this regard, the fact that building a brand and gaining customer loyalty is challenging for a small business in the online industry informs the rationale for the choice of a merger for the small business.

Effective way to sustain and extend a competitive advantage

With the advent of globalization and the internet, small businesses in the online auction industry have no choice but to have a global outlook. Thus, any business in the online auction industry should venture into new markets in order to sustain its profitability and extend its profitability. However, it is a challenge for such a business to be competitive in a market dominated by a few players. In effect, the most effective way to sustain and extend

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competitive advantage in the industry is by seeking joint ventures with other organization in the same industry, and especially when entering new markets (Robinson & McDougall, 2001, p. 660). Joint ventures are a strategy that firms have used with success in this industry. Case in point, MindArk, a Swedish online gaming company, formed a joint venture with Cyber Recreation Development to develop the largest online gaming platform in the Chinese market. On the other hand, ChinaYouTV and HuaJu jointly ventured to turn HuaJu into the Chinese version of YouTube with wide success in the country (Garbade, 2009, p. 63).

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