



## Is Shopify Inc. a Long-Term Tech Hold?

### Description

Many investors have been hesitant to invest in the technology sector because the “FANG” stocks—**Facebook Inc.**, **Amazon.com, Inc.**, **Alphabet Inc.**, and **Netflix, Inc.**—had been hit so hard when the markets started to drop. While these companies may be hurting some, there are other companies that are attractively priced that could become nice additions to any technology-focused portfolio.

One company that I have had my eyes on for some time is **Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)). It's an e-commerce provider that allows small businesses to have online shops with relative ease. In the past a merchant would have to hire a developer to create a custom website, deal with the advanced payment APIs, and then hope that the site was running. This would cost thousands, if not tens of thousands.

With Shopify, merchants can pay anywhere from US\$9 to US\$179 per month to have their website up and running much faster. Shopify also has a built-in payment mechanism called *Shopify Payments*, from which it is able to generate revenue from fees. As its merchants do better, Shopify does better. This business model is actually one of the reasons why I am such a fan of the company.

There are many ways to make money as a tech company, but there are three predominant ways that excel. The first is to build such a powerful brand that people just immediately go to you for specific actions: Facebook for social contact, Amazon for buying, and Google for searching.

The second way is by selling incredibly large software/hardware packages, making it difficult for the client to leave because they're completely integrated. The third is the subscription business.

Shopify is a subscription business. Because it charges by the month, it is able to predict what its revenue will be, allowing it to operate a much more efficient business. What makes Shopify so unique is that its subscription business allows it to become integrated in its customer's business, resulting in low churn. If you have a Shopify e-commerce site up and running, you are not likely to switch.

The business model is working. In its most recent quarterly report, the company revealed that it had 243,000 merchants on the platform. In and of itself, that's impressive. However, what really makes me excited about this company is that it only had 200,000 in the previous quarter, showing tremendous

growth.

Further, it used to cost Shopify about \$1,000 in sales/marketing to sign a new merchant up. Due to increased efficiency and the number of merchants that signed up compared to the amount spent on sales and marketing, it only spent \$500 in the most recent quarter to sign up a new merchant.

All told, Shopify has built a business that keeps customers around for a long time, generates consistent revenue on a monthly basis, and sees its revenue grow when its merchants do well. I believe that all of this makes Shopify a long-term tech hold for any investor looking to get in early.

## CATEGORY

1. Investing
2. Tech Stocks

## TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

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## Date

2025/08/18

## Date Created

2016/02/19

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