



## Is Shopify Inc. Worth a Look?

### Description

Over the weekend, I got into a discussion with my friend's father about the commoditization of technology. Early on, technology is novel and it requires a lot of expertise to deploy it. As time goes on though, that technology becomes much easier to work with and, soon enough, it becomes a commodity.

**Shopify Inc.** (TSX:SH)([NYSE:SHOP](#)) has taken the launching of ecommerce websites, which used to be burdensome and very expensive, and made it a commodity. With a few clicks, a business can be online and ready to sell. And rather than spending tens of thousands of dollars to pay a developer to get the site up and running, it costs less than \$50 a month.

When a technology becomes a commodity, it becomes cheaper to develop and, with a software-as-a-service business model, the costs are spread out across more clients. On top of that, with a recurring monthly fee, Shopify is in a position to understand growth and revenue, allowing it to budget for development and marketing with real numbers.

But I'm sure you and I both have monthly services that we would cancel without blinking an eye. What makes Shopify so unique is that its product is incredibly sticky. I might put dozens of hours into getting my shop set up on Shopify. Am I really going to leave Shopify for another provider? While it's possible, the low monthly cost plus the time it would take to transfer to a new vendor makes it unlikely that people will leave.

Shopify also offers its Merchant Solutions segment, which helps a business with shipping needs as well as payment processing. While the margins on this are smaller, I view them as further methods of making the overall platform sticky. And finally, the company launched Shopify Capital, which provides cash advances to certain merchants. If your website, credit card-processing, cash advances, and shipping needs all go through Shopify, why leave?

That makes the company very predictable.

Let's go back to the point of a technology being a commodity.

As more people sign up to the technology, the cost per user should drop because the cost is spread around. That appears to be the case with Shopify as well, which has seen its operating costs as a percentage of revenue drop consistently year after year.

In its first-quarter 2016 financial results, Shopify announced that it had revenue us US\$72.7 million, which was a 95% increase year over year. Subscription Solutions revenue grew 73% and Merchant Solutions revenue grew 127%. Most importantly for me, the company saw the number of merchants on the platform grow to over 275,000. Last quarter it had 243,000. In the quarter prior, it only had 200,000. Shopify continues to add new businesses to the platform, which makes revenue predictable.

There's no doubt that Shopify is still in the hyper-growth stage and continues to lose money, albeit at a lower rate. That being said, I believe this stock is a smart purchase because when it comes to small business ecommerce, there are few alternative low-cost providers. Right now, I view this as a buy.

## CATEGORY

1. Investing
2. Tech Stocks

## TICKERS GLOBAL

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

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