



## As Shopify Inc. Tumbles, Should You Sell Too?

### Description

**Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock lost \$16.75 on the TSX on Wednesday, which was a massive 11.50% loss of the company's equity valuation amid a massive surge in trading volume after a severely harsh criticism by well-known short seller and analyst Andrew Left of Citron Research.

Citron Research released a video accusing Shopify of being a get-rich-quick scheme that needed to be investigated by the U.S. Federal Trade Commission (FTC).

Should investors be selling?

That depends on how confident you are about Shopify's business model.

### A solid business plan?

Shopify operates a tangible and real business that enables e-commerce merchants to quickly and easily bring their goods to their target market, and these merchants generate real sales.

Shopify's gross merchant volume (GMV), the volume of merchant sales generated through the Shopify platform, is growing exponentially quarter on quarter, year over year, and these are numbers no analyst can dispute.

Most noteworthy, Shopify offers a sticky business model. Once a merchant moves to the Shopify platform, opens a store front, and integrates their payments systems and other business administrative functions with the Shopify platform, migrating to a competing platform would become a complex and time-consuming thing.

No wonder Shopify has an affiliate referral program (the very one which Andrew Left vehemently attacked), which allows partners to "make (an) industry-leading commission." Shopify says on its website that affiliates can "earn the first two months of a customer's paid subscription fee for every new Shopify merchant" they refer.

Shopify is confident that once these new customers come onto the platform, the sticky business model

will retain them in the system.

At a general minimum monthly subscription fee of \$29 a month for the Basic Shopify package, and a \$9 a month Shopify Lite package for **Facebook**, website and blog sales, it would seem like a “cheap” value proposition that doesn’t cost an arm and a leg for new online entrepreneurs to keep their store fronts open.

That said, its not like there isn’t any risk to Shopify’s business model.

It could be argued that Shopify may be lacking some essential competitive moat in its model since its technology platform can be easily replicated.

However, I strongly believe that it would take some genius and a strong financial muscle for new competitors to successfully challenge Shopify’s total addressable market and forge the same high-value connections with Facebook, **Amazon**, and Pinterest, among others.

The majority of the 470,000 plus small-business merchants on the Shopify platform are probably new startups whose survivor-ship potential beyond three or five years is not yet proven.

This could be a significant threat to Shopify’s revenue-growth sustainability in the long term. However, it may be a very long time before growth stalls. Not everyone with ambition and a need for financial independence has already tried his or her luck in the online business space. More merchants are likely yet to come to Shopify.

That said, if there is a weakness in the Shopify business model, it may take years to be identified. Shopify’s current astronomical growth rate could shield the problem for another three or more years.

### **Should you sell too?**

High-growth stocks like Shopify, with very rich valuation metrics, can easily suffer violent price corrections; it’s worse if the business model is yet to prove its profitability. It may not hurt to take some profits off the table, but don’t entirely exit the position, as there could be more growth around the corner.

There is the risk that Andrew Left is not done with Shopify yet, so buying the dip today could be a very risky bet.

However, Shopify’s financial reports, due end of this month, may boost investor confidence and result in a massive share price rebound.

Investing in Shopify stock could easily make millionaire investors, but that’s easier for those who buy and can hold for the long term.

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