Is Shopify Inc. Biting off More Than it Can Chew With its Latest Expansion Plans?

Description

As one of the pre-eminent companies leading the way in e-commerce and online retail, **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) is certainly a company with an enviable – and potentially very profitable – future ahead of it.

But as the company works to try to grow both its user base — currently sitting at over 600,000 active Shopify stores — and find new and useful applications for its online platform, is it finding itself running up against the proverbial wall?

Make no mistake – Shopify stock has been one of the best performing stocks on the TSX in recent years as entrepreneurs and customers have increasingly migrated to online channels in favour of traditional brick-and-mortar outlets.

In fact, Shopify shares have gained an incredible 741% since the company's initial public offering (IPO) in May of 2015.

In case you're wondering, that means a $10,000 made back in the spring of 2015 would now be worth an amazing $74,147.

Imagine the online shopping spree that those profits could afford!

But despite the outstanding performance of the company's share price, management has still struggled to make the firm profitable.

Last year in 2017, the company lost $0.42 per share, which was a bigger loss than the $0.30 deficit the company recorded in 2016 and a $0.34 loss back in 2014.

You might be surprised at how a company that is consistently losing money could be tied to a stock that's performed so well in the markets.

Shopify is clearly not as concerned with short-term results as it is with establishing a foothold in the rapidly growing e-commerce market.

The e-commerce, or online retail market, is one of the fastest growing segments of the economy right now, with many experts expecting that trend to continue well into the next decade.

Already boasting a leadership position in the space with a mission to help small- and medium-sized businesses better reach out to meet the needs of their customers, Shopify is as well positioned as any to become a big time player in e-commerce for years – maybe even decades.

But a recent announcement suggests that any future profits for Shopify and its shareholders may still be years down the road, as it plans to continue to spend aggressively over the short term.

Shopify recently announced plans to increase its Montreal workforce by 120 in addition to the 150 staff already in place.

But plans to expand its Montreal offices by enough to accommodate up to 450 people leads me to believe that any forthcoming new hires could be just the beginning.

Meanwhile, in Waterloo, Ontario, the company plans to hire somewhere between 350 to 500 employees over the next few years on top of a 50% increase in staffing between 2016 and 2017.

Bottom line

As Shopify continues to add stores to its user base, each incremental user will become more difficult – not to mention more expensive – to acquire.

With the company already operating consistently in the red, adding more staff is unlikely to change that trend.

It could be that Shopify is attempting to emulate the strategy that has worked so well for Jeff Bezos and **Amazon.com, Inc.** (NASDAQ:AMZN) – a company that notoriously threw the goal of operating profitability out the window in favour of spending to secure market share.

Shopify could very well end up following in Amazon's footsteps — successfully.

But until the company gets there, investors might find get dizzy from holding their breath, and may in fact be better off shopping elsewhere.

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Author
jphillips