



2 Reasons Shopify Inc. Stock Could Continue to Soar

Description

The rise of Canadian e-commerce superstar **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) is truly something to behold. The provider of e-commerce solutions for small- to medium-sized businesses has continued to grow alongside burgeoning demand for the company's services — something early investors realized could very well propel this company into the stratosphere should Shopify's management team get its product right.

At this point, investors have wholeheartedly bought into the Shopify business model, and for good reason. The company's outright insane growth rate of approximately 70% each and every quarter (on a year-over-year revenue basis) is enough to continue to fuel share price appreciation, despite [concerns](#) made public by a number of short sellers that all may not be going so well at Shopify.

In this article, I'm going to discuss two key theses behind the bull case for Shopify. Here goes.

Product diversification working

As with other large e-commerce companies such as **Amazon.com, Inc.** ([NASDAQ:AMZN](#)), obtaining growth will out of necessity become increasingly harder as a company grows in size due to the law of large numbers. Within a given sector, as a company begins to carve out its niche, branching out into new business lines may be the only way to continue to grow a business' top line over time (ignoring bottom line impacts relating to capital investments).

Shopify has done a good job of working to expand the products it offers its customers (business owners), branching into services relating to payment processing, messaging, currency and translation tools, as well as bricks and mortar support for businesses looking to integrate e-commerce into an already existing bricks and mortar business or vice versa.

Over the long-term, the opportunities for expansion into secondary product offerings within the Shopify platform certainly have the potential to continue to drive top-line revenue. I expect to see the number of new product announcements to pick up in volume and scale as investors continue to demand more of Shopify.

A growing moat

One of the biggest knocks on Shopify's current business model is its moat, or lack thereof. When it comes to retaining a customer base, increasing switching costs or finding a way to force customers to continue to use a given product (either via contracts or other means) is one focal point many investors look for – Shopify has traditionally remained very open with respect to its product offering, focusing on customer satisfaction and product superiority over locking in existing clients, which has not gone over well with short-sellers.

While I would agree that in its current state, Shopify's business model would justify concern from a moat-oriented investor, I would also argue that Shopify's very strong platform does offer investors some small consolation as a moat in and of itself. As Shopify continues to improve its platform, I expect to see the company's churn rate (which has still not been made clear) slow down meaningfully over time.

Bottom line

Shopify remains a [high-risk](#), high-growth play in the tech space, and is an investment I won't touch for fundamental reasons related to the company's balance sheet. That said, the bull case for Shopify is understandable and should be understood by investors on both sides of any trade.

Stay Foolish, my friends.

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Date

2025/08/01

Date Created

2018/06/04

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