

Shopify Inc (TSX:SHOP) vs. Amazon.com Inc (NASDAQ:AMZN): Which Is the Better E-Commerce Play?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Amazon.com Inc** ([NASDAQ:AMZN](#)) are two of the biggest names in ecommerce. While they aren't identical in their business models, they share many similarities. Both are involved in selling physical products. Both drive massive and growing amounts of online sales. And both enjoy huge [market share](#) in their respective niches.

Because of the differences in their business models, Shopify and Amazon are not in direct competition. However, since individual Shopify *stores* compete with Amazon for sales, the two companies are indirect competitors. As an investor, it helps to know which of the two companies is best positioned to thrive in the years ahead. We can start by looking at each company's business model.

Business model

Shopify is a subscription-based service that lets vendors build e-commerce websites. Shopify includes not only web design services, but also hosting and payment processing. Because of its robust service offerings, Shopify can be considered a complete front-end ecommerce platform. However, Shopify lacks fulfillment, which vendors must do either on their own or through a service like Fulfillment by Amazon.

In contrast, Amazon acts as both an online store and a fulfillment center. The company stocks and sells many products itself (similar to a brick and mortar store) and also provides a platform for companies to make sales.

In areas where Amazon sells products directly (e.g., books and movies) it acts like an online equivalent of **Wal-Mart**. In this area of its business, Amazon is not in competition with Shopify. However, the "Selling on Amazon" part of Amazon's business could be considered a Shopify competitor.

Selling on Amazon lets vendors run their own Amazon store where they sell products, similar to a Shopify store. The professional plan also comes with a monthly subscription fee in exchange for extra features, adding another similarity to Shopify.

Earnings and growth

Another similarity between Amazon and Shopify is their earnings history. Put simply, both companies have struggled to achieve profitability. Amazon was publicly listed for over a decade before it started posting consistently positive earnings. Lately, however, Amazon has been growing its earnings at a frightening pace: 1,186% year-over-year in the most recent quarter.

Shopify for its part is still losing money. A major concern for the company is its growing losses, which call into question whether it will be net-profitable any time soon. On the other hand, Shopify has Amazon beat on revenue growth. Whereas Amazon grew revenue at 39.3% in its most recent quarter,

Shopify was [charging ahead](#) at 62%.

Bottom line

Shopify and Amazon are by far the world's best known ecommerce companies. In terms of year-to-date performance, either one of them would be a worthy pick. For growth-oriented investors looking to grab a slice of the whole ecommerce industry, it may be a good idea to buy both.

However, for more defensive investors who value stability and earnings, Amazon is the better pick.

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