



Can Shopify Inc (TSX:SHOP) Challenge Amazon (NASDAQ:AMZN) in Marketing?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is the darling of the Canadian tech industry. Boasting [red-hot growth](#), increasing market share, and a rapidly diversifying product line, it has become an e-commerce juggernaut. In recent quarters, the company's revenue growth has been hovering around 58% and 62%, with no signs of slowing down. In the quarter ended September 28, the company's earnings beat analyst expectations by 26%, and with record-breaking Black Friday sales, the company will probably post more great results in its next report.

But in the e-commerce world, it's a long road to the top. To become a dominant player in the space, Shopify will have to compete with **Amazon.com** ([NASDAQ:AMZN](#)) in one way or another. Although the two companies' business models are different, they're ultimately both competing for a cut of e-commerce vendors' sales, which means they will eventually collide if Shopify gets big enough. And Shopify is showing increasing signs of wanting to compete with Amazon on its home turf: marketing.

If the plan works, Shopify could be headed straight to "blue-chip tech" territory. But that's a big "if." Amazon has a large moat in e-commerce marketing, while the social media giants control general advertising. To determine if Shopify's plan will work, we need to look at its business model to see if it provides a potential foothold in marketing.

Business models compared

Shopify's business model is different from Amazon's. Shopify primarily provides a front-end website and [back-end payment processing](#) for vendors whose sites are otherwise self-administered. Amazon provides a centralized home for vendors to sell their products, along with fulfillment features (shipping, etc.) and marketing options. The fact that all Amazon vendors sell on the massively popular Amazon.com site gives them the advantage of being found in Amazon searches as well as being able to advertise on the site. These marketing features are a huge leg up that Shopify doesn't have ... yet.

Shopify's plan to expand into marketing

According to recent reports, Shopify is planning on rolling out a set of marketing features that could narrow its gap with Amazon. The big challenge for Shopify vendors is driving traffic to their offers — a hurdle Amazon vendors don't have quite as hard a time with.

Shopify has risen to the challenge by rolling out new set of apps to help customers drive traffic and conversions. For example, its CRM app kit has features that let users manage **Facebook** ads and find Instagram audiences from a centralized dashboard. Although this isn't quite the advantage that Amazon search is, it can certainly help Shopify bridge the gap.

What's up for grabs?

If Shopify's marketing tools succeed, its shareholders could pocket some serious gains. In 2017, total e-commerce sales were \$2.7 trillion, and that's expected to grow to \$4.9 trillion by 2021. That's a huge market, and one that Shopify still has tonnes of room to grow in. Shopify's revenue for 2017 was \$673.3 million — a drop in the bucket. In the same year, Amazon earned \$178 billion. If Shopify could even get to a quarter of Amazon's size (while generating positive earnings), it could be a 10-bagger and then some. For this and other reasons, Shopify remains the Canadian tech industry's "one to watch."

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