



Growth Investors: Can You Still Cash in on Shopify (TSX:SHOP)?

Description

The ecommerce sector has been growing at a fast pace. Online sales are currently outpacing brick and mortar sales in terms of growth – a trend that is projected to continue. While most major brick and mortar stores aren't in danger of being destroyed by the online shopping revolution, the ecommerce sector isn't finished growing.

Various companies have already taken advantage of the ecommerce space, but **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is [currently the hottest among them](#). The company's growth over the past few years has been stratospheric. There are many reasons behind Shopify's growth, but one of the most essential has been its competitive advantage. Let's look at two factors that explain Shopify's success and why I think the company is still a sensible investment option.

A unique platform

Shopify isn't the largest among ecommerce companies. Firms such as **Amazon**, **eBay** and others are currently ahead of Shopify by most metrics. Consider, for instance, gross merchandise volume (GMV), which measures the amount of dollars in sales on online shopping platforms. Shopify isn't the top three ecommerce platform in terms of GMV. To be clear, Shopify's GMV is on the rise. The company's latest earnings report showed an average GMV increase of 24% for its merchants.

But Shopify's competitive advantage comes in part from the unique platform it offers. The company gives small business owners and entrepreneurs the possibility of building a strong and customized online presence. Merchants on Shopify have a lot of freedom as far as what they want their ecommerce website to look like.

Thus, merchants can adapt their platforms to their target market. Of course it was possible to build an ecommerce website before Shopify came along. However, Shopify allows its customers to avoid many of the typical hassles of building a website. Shopify makes the task rather easy, and small business owners who may not be tech-savvy can focus on attracting customers and on their day-to-day operations.

High switching costs

Online traffic on ecommerce platforms such as eBay and Amazon is enormous. It may seem natural for business owners to think of those first to reach customers. However, as much traffic as these platforms are, there also come with a lot of competition. It is often difficult for vendors to stand out in the crowd on Amazon. Shopify provides an alternative, and in doing so, forces merchants to create an entire website to attract customers.

Once a merchant has spent time and money building an online presence, it's very troublesome to switch. Thus, Shopify's business model comes with high switching costs. These costs aren't just in the form of dollar bills. But creating a marketplace designed to attract a clientele requires a lot of effort. This ensures that Shopify's merchants aren't likely to leave the platform, even if there is an option that is just as good, or even better.

Investor takeaway

Given Shopify's growth history, some investors may be skeptical of the company's ability to continue at the same, or even at a comparable rate. However, Shopify is up by more than 30% since the beginning of the year. The Ottawa-based firm's competitive advantage will likely continue to spur revenue growth. Thus, it may not be too late to invest in Shopify.

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