



## \$30-Billion-Giant Square Inc (NYSE:SQ) Is Going to War With Shopify Inc (TSX:SHOP)

### Description

I [took a look](#) at how **Microsoft** is working to take down **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). I concluded that “mounting competitive pressures could ultimately put a big dent in the share price.”

Other analysts are just as worried about the future of Shopify’s stock price. A recent report from Citron Research reiterated several times that “Shopify operates in an increasingly competitive industry.”

In March, another fearsome competitor entered the ring: **Square** (NYSE:SQ). With a market cap of more than \$30 billion, Square is larger and better financed than Shopify. While it doesn’t have the weight of Microsoft, Square will undoubtedly put pressure onto Shopify’s business model.

If you own Shopify stock, you need to understand the details behind Square’s strategy.

### Get ready for trouble

On March 20, Square revealed that its Square Online Store and Square for Retail products will be integrated with Weebly, the store builder software it acquired in 2018. While it didn’t expand on the news too much, investors should read this as a direct attack on Shopify.

For years, digital retailers have had access to online payment processing and website builder tools. What Shopify did was integrate those two items. While it may not seem revolutionary, the ability to create an online store in minutes with fully-integrated payment processing was something the market sorely lacked.

Since launching, Shopify has grown like a weed. Not surprisingly, this growth has attracted new competitors.

Square actually has a much deeper expertise in payment processing given that payments are its core focus. By combining this expertise with Weebly's site-building tools, Square is essentially replicating Shopify's platform.

While there will surely be differences in how each platform operates, it's likely that Square will compete aggressively to poach potential Shopify customers. Not only will competition heat up for which company operates the best platform, but competitors like Microsoft and Square should put pricing pressure on Shopify's defacto monopoly.

## Fighting a rising tide

For years, Shopify has competed only with itself, taking market share nearly every quarter. With the involvement of tech behemoths like Square, this status quo is about to be disrupted.

Starting this year and ramping into 2020, Shopify will face a rising tide. Multiple factors should impact its financial performance.

First, expect Shopify to spend more in corporate expenses to improve its software offering. While investing in itself may seem attractive, these dollars will go mostly towards fending off competing platforms.

Second, expect Shopify's margins to be pressured. As competition rises, fees will drop in response. With significantly more cash and access to capital, competitors like Microsoft and Square can afford to take losses to drive Shopify out of the market.

In total, Shopify will likely need to spend more money each quarter while charging customers less. As more and more tech companies enter the market, these pressures will only accelerate. Now priced for perfection, Shopify shares could have plenty of downside to come.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. NYSE:XYZ (Block)
3. TSX:SHOP (Shopify Inc.)

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