



Shopify Inc (TSX:SHOP) Faces its Biggest Challenge Yet: Facebook (NASDAQ:FB)

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is in trouble. Its biggest threat is pure competition.

In March, \$30 billion tech giant **Square** decided to [compete directly](#) with Shopify. With more capital and deep expertise in digital payments, Square alone has the potential to disrupt Shopify's glory days.

Then, news broke that \$900 billion behemoth **Microsoft** was also [entering the ring](#). Microsoft's corporate vice president of retail and consumer goods said that the company is looking to enter the market "very seriously because our customers are asking us for it."

As if things couldn't get any worse, **Facebook** (NASDAQ:FB) also jumped into the fold. Read on to discover why Facebook could be Shopify's biggest threat yet.

Say hello to Instagram Checkout

On March 14, Shopify stock fell 4% in a single trading session after news broke that Instagram would introduce its new Checkout feature, allowing users to purchase items directly within the app. Facebook bought Instagram in 2012 for \$1 billion.

Previously, merchants simply connected their Instagram and Shopify accounts, forcing purchases to go through Shopify's platform. Using Instagram Checkout, merchants can cut out Shopify completely. Users will store their payment information in Instagram to make purchasing items within the app easier than ever.

Shopify bulls will likely say, so what? Sure, Instagram was a nice source of income for Shopify, but it's only one platform. Shopify's opportunity is certainly much larger than just Instagram.

The problem isn't necessarily that Shopify will lose out on Instagram purchases. Instead, investors should be worried about what Facebook's actions mean for the rest of its business.

Shopify is in trouble

Facebook is only the first domino to fall. Over the next 12 months, expect many more tech giants to break ties with Shopify.

The rebellion is already under way.

On March 22, Mailchimp broke up with Shopify after the two companies couldn't agree on data privacy rules. Today, Shopify users can no longer integrate their Mailchimp accounts with their Shopify marketplaces. That's a big problem considering Mailchimp is the world's largest automated marketing platform, with more than 20 million users.

Interestingly, after parting ways with Shopify, Mailchimp agreed to integrate its service with Square. It seems as if other tech giants are staging a coordinated protest against Shopify's business practices.

The valuation is just too crazy

Today, Shopify's valuation seems to be pricing in limited competition and zero pricing pressures. With a growing number of better-financed competitors entering the market, it's unlikely that Shopify won't be pressured greatly in the months and years to come.

Even compared to other market favorites like **Lyft**, Shopify appears aggressively valued. Lyft shares currently trade at a less than six times EV to sales. Shopify stock is valued at more than 20 times EV to sales.

Shopify remains a stock market darling to this day, but don't be surprised if its fortunes change quickly this year.

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