



## Is It Time to Bail on Shopify Inc (TSX:SHOP)?

### Description

A few weeks ago, [I argued that Shopify \(TSX:SHOP\)\(NYSE:SHOP\)](#) could double its share value by year-end. After all, the market-beating tech company has been flying high recently. So far this year, Shopify's share price is already up by more than 50%, and we aren't halfway through the year yet. However, a series of challenges have recently been threatening Shopify's growth. Various corporations are now positioning themselves as rivals of the Ontario-based company. Is this the end of Shopify's Cinderella story?

### How Shopify got to this point

Central to Shopify's success has been its business model. While there are scores of e-commerce platform, the company has managed to attract a specific portion of the market. Merchants looking to build a customized online platform from scratch know to turn to Shopify. Not only does Shopify allow these merchants to create an online store that is tailored to their target market (thus making the marketing aspect much easier), Shopify also helps merchants manage various aspects of their business.

Leveraging this strategy, Shopify built a solid competitive advantage. The company's platform comes with high (or perhaps tedious) switching costs. Once merchants have built a highly customized online store, they won't be willing to jump ship, not easily anyway. The number of merchants on Shopify's platform has risen significantly over the past few years. In 2016, the company had about 378,000 merchants (at year end). Shopify currently has in excess of 800,000 merchants, which represents an increase of more than 100% over the past two years.

Further, Shopify benefits from this high traffic in other ways, as the company's App Store — which was first launched in 2009 — becomes increasingly popular among merchants. According to the company, over 80% of merchants use various apps to run their operations. Shopify partners generate hundreds of millions of dollars in revenue every year. With thousands of app developers (and growing) offering services on Shopify's App Store, the tech firm has successfully built a community. This community will be critical to Shopify's future.

## Danger looms

Not all is rosy for Shopify at the moment. The company is facing new and increased competition. First, there is a new challenge from Instagram (owned by **Facebook**). Merchants previously had the option of connecting their Instagram and Shopify accounts. However, it was recently announced that Instagram would allow users to purchase items directly from their Instagram account, leaving out Shopify entirely. **Square** is another company currently challenging Shopify. Last year, the payment processing firm acquired website-builder Weebly.

Square is now ready to launch its own fully fleshed out e-commerce platform (powered by Weebly technology), which will, of course, compete with Shopify. Perhaps the biggest challenge coming Shopify's way [stems from Microsoft](#). The legendary tech company is currently considering venturing in the e-commerce sector. E-commerce sales still account for a very small percentage of retail purchases in the U.S. This number is set to continue growing, however. Thus, it isn't surprising that Shopify is facing more and more competition from tech companies looking to get in on the act.

## Is Shopify in trouble?

Shopify is facing an increasingly competitive landscape. Though the company has managed to build a moat, firms with the name recognition and resources necessary could eat up enough market share to undercut Shopify's future growth. Despite these challenges, I believe Shopify has built enough of a lead to maintain a reasonable portion of the market share. I think it is unlikely that newcomers to the e-commerce sector completely erode Shopify's lead. Thus, I am not willing to give up on Shopify just yet.

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