



Is Shopify (TSX:SHOP) Making a Big Mistake?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) may be trying to bite off more than it can chew.

The popular tech stock has been one of the top performers on the markets this year, more than doubling in value since the start of the year. With growth rates regularly at 50% and above, it's been producing some very strong sales numbers and it still has a lot of potential left.

The problem, however, is that Shopify may be trying to do too much and go into too many different directions. Earlier this year, we learned that the company was going to be expanding into media and producing [television shows](#). And last week it announced that it would be launching a fulfillment network, effectively competing against one of the biggest companies in the world: **Amazon** ([NASDAQ:AMZN](#)).

Is the opportunity worth the risk?

Shopify can hardly be blamed for trying to look for new opportunities to grow its business. However, given the company's struggles to turn a profit and facing growing [competition](#) in its native industry and looking to take on one of the biggest fish out there, it pretty well guarantees that Shopify's bottom line isn't going to improve anytime soon. If anything, the losses and cash burn may worsen, as Shopify will be dealing with competition on an even bigger scale.

By going into fulfillment, Shopify hopes to give merchants an alternative to Amazon. It's going to aim at offering two-day shipping across 99% of the continental U.S. While that's an ambitious strategy, it's not a cheap one.

Although there's certainly the allure of a company trying to be an Amazon alternative, there are many reasons that have prevented companies from wanting to compete with the tech giant: Amazon is too big, too powerful, with too many resources at its disposal.

Shopify is putting itself into a much more difficult scenario and not giving itself a good opportunity to succeed. It would be one thing if the company had been raking in profits and generating significant free

cash flow, but that hasn't been the case.

Rather, Shopify has been bleeding money and profits have been elusive. Without first getting its core operations under control and profitable, it seems rather hasty to be jumping into an even bigger venture that's going to require a significant amount of resources.

Bottom line

I wasn't a fan of Shopify getting into TV and I'm not a fan of this move either. The company is in danger of spreading itself very thin with all these different avenues of growth that it's chasing. While Amazon has been successful at getting involved in other industries, the company also has a lot of cash and resources at its disposal, putting a company like Shopify at a disadvantage right off the bat.

Investors were definitely excited on the news that Shopify was getting into fulfillment, but I wouldn't hold my breath that the company will be able to be successful in that segment.

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