



Is Shopify (TSX:SHOP) an Acquisition Target?

Description

“What could kill the apex predator of retail, **Amazon**?” asked Scott Galloway, entrepreneur and clinical professor of marketing at the New York University Stern School of Business, on **Twitter** this week. His answer: **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)).

Galloway argues that Shopify’s business model allows online retailers to retain their customer base, branding, and data, which has helped attract more subscribers (merchants) to the platform over the years. Shopify has managed to create a loyal user base that Amazon can’t seem to touch.

He says the fact that Amazon isn’t directly competing or replicating the model is a sign that Shopify is “in a good business.” But I find it hard to believe Jeff Bezos has overlooked this lingering threat for so long. Instead, I think the company understands the appeal of Shopify’s offering and will soon decide to either kill it or acquire it.

Amazon isn’t alone. **Microsoft** recently announced a suite of e-commerce software tools and Instagram recently added a check-out feature to push product sales on its photo-sharing platform. The [competitors are closing in](#), but Shopify’s value proposition, I believe, could attract a potential acquirer.

Shopify’s competitive advantage

The company has managed to create a robust network of small retailers and third-party vendors on its platform by giving them the one thing Amazon won’t provide: control.

Vendors can create their own shopfronts and manage the customer relationship independently, while leveraging Shopify’s software tools to power the back end and supercharge the experience for buyers. This model has allowed over 218 million people to buy products on Shopify’s platform without ever hearing the company’s name.

Instead, Shopify caters to thousands of third-party logistics companies and over 820,000 merchants from across the world. This year, it also announced its plan to launch the *Shopify Fulfillment Network* to rival Amazon's logistics powerhouse.

If the company can successfully deploy a fulfillment network in the United States, its key market, it can cement its position as a legitimate Amazon rival.

Recreating this network won't be easy, even for technology giants. That could make Shopify an attractive acquisition target for the likes of **Walmart** or Google.

Walmart has the resources and desire to integrate Shopify's online sales network into its business. Its US\$16 billion investment in India's Flipkart for a majority stake could serve as a model for such a move.

Meanwhile, Google has struggled for years to break into e-commerce with its homegrown solutions. Amazon has become Google's biggest search rival by dominating the search traffic for online shopping, and the company needs a way to mitigate this encroachment.

Both companies have billions in cash and the necessary infrastructure to support Shopify's next phase of growth. A potential acquisition could unlock immense value for current shareholders.

Bottom line

By becoming a serious rival to Amazon, Shopify may have pulled off the seemingly impossible. It's network of merchants and entry into the fulfillment business will undoubtedly power its growth over the long term and could make it an attractive acquisition target for large companies that have struggled to beat Amazon.

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