



## Will Shopify (TSX:SHOP) Stock Double Again in 2020?

### Description

**Shopify Inc.** ([TSX:SHOP](#))(NASDAQ:SHOP) stock has been on an incredible run. After going public in 2015, shares doubled in just 18 months. Then shares doubled again. And *again*.

In total, shares have risen 1,340% in less than five years. Over the same period, the **S&P/TSX Composite Index** rose by just 14%.

This begs the question: will Shopify shares double yet again in 2020? Let's dive in.

### Platforming is misunderstood

The market hasn't figured out how to value platforms. Why else would platform stocks continue doubling and tripling on a regular basis? If these businesses were valued correctly, these [astronomical returns](#) wouldn't be possible.

The tech platform is a relatively new phenomenon, at least at the scale it's currently operating at. At its core, a platform is exactly what you'd expect: a basic piece of infrastructure that other things can be built on top of.

The most popular tech platform in history may be the Windows operating system from **Microsoft Corporation** ([NASDAQ:MSFT](#)).

When Microsoft first designed Windows, it specifically didn't include everything the user would ever need. Instead, it opened up the software to outside developers that were able to build *on top of* Windows to create and monetize third-party applications.

If you're using a Windows computer now, most of what you do on a daily basis likely isn't using anything that Microsoft has developed internally. It simply built the platform for other developers to take advantage of. This scaled Windows' capabilities significantly faster than if Microsoft had to build everything itself.

Here's the critical part: if Windows goes away, so does everything else. After all, a Windows application only works using Windows software, creating incredible staying power. Users can't switch to another system without ditching everything they've built. That's a tough sell for consumers, but especially for businesses.

Even the iPhone by **Apple Inc.** ([NASDAQ:AAPL](#)) was made possible through platforming. At the start, Steve Jobs wanted to create the phone's apps internally.

Eventually, better minds prevailed, and Apple opened the App Store to outside developers. The rise of the iPhone couldn't have been possible without the App Store, one of the most valuable platforms ever to exist.

## Why Shopify is special

Shopify aims to be the platform for e-commerce. By many metrics—mainly its \$60 billion market cap—it's already succeeded.

In 2004, when Shopify was founded, it quickly realized that a platform model was the most valuable choice. After all, digital businesses require hundreds if not thousands of capabilities, all custom fit for their specific needs. No single company could satisfy every e-commerce business worldwide, but a single platform could.

With Shopify's platform, users get some instant capabilities, including a website builder, payment processing, and inventory management. I've personally used Shopify's software and can verify how simple it is to use.

From there, users can add literally *thousands* of plugins mostly developed by third-parties. Some involve marketing or aesthetics, while others integrate outside software or enhance Shopify's basic tools.

Here's where things get really special. By nailing the platform model, Shopify can now take advantage of a virtuous cycle known as the network effect. Having a respected platform with broad capabilities attracts new users.

New users make it more valuable to develop on the platform, which attracts more developers, further increasing the value of the platform and attracting even more users. And on, and on, and on.

Such is the power of a platform. Once the virtuous cycle begins, it's hard to compete with. At this point, it would be surprising if a single competitor ever caught up to Shopify's leading position.

Investors often look to Shopify's sky-high multiples and rightfully question their validity. Stopping there, however, is what has caused platforms to consistently be undervalued.

Last year, global e-commerce sales surpassed \$30 trillion. How much of this market could Shopify eventually take? The exact figure is uncertain, but it's likely much larger than its current valuation.

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