



Is Shopify (TSX:SHOP) Stock the Next Netflix?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) stock is one of the most successful companies on the TSX. Since 2015, shares have increased by 1,600%. But the run isn't over. Shopify is looking like the next **Netflix Inc** ([NASDAQ:NFLX](#)), a company *twice* its size.

Of course, Shopify isn't about to enter the streaming wars. The similarities are much more subtle.

In 2011, Netflix opted to enter the streaming business in a huge way. It dedicated billions to access external content portfolios, greatly expanding its offerings. More important, it started to invest in original programming. All of these efforts allowed it to become a bonafide platform.

Today, Netflix is the go-to company for writers, directors, actors, and producers, providing the company with a constant stream of deal flow. That deal flow expands its content portfolio, pulling in more subscribers, which in turn increases its value to content creators. It's a virtuous cycle.

Shopify is creating the same positive feedback loop. But rather than video content, the company is focused on [e-commerce](#). The momentum could last for *decades*. This really looks like the next Netflix.

Here's what is so special

If you're looking for companies that can grow like a weed for a decade or more, pay close attention to platform stocks. These businesses don't try to create everything themselves. Instead, they crowdsource innovation from all over the world. When done right, these companies can outgrow any competitor.

Consider the Windows operating system from **Microsoft Corporation** ([NASDAQ:MSFT](#)).

When you're on a Windows computer, most of the things you do aren't powered by Microsoft. You're likely using a third-party application built by some other company because Microsoft didn't count on itself to build every single thing on its system. It merely built the underlying platform (Windows), opening up development for everything else (applications).

Today, Microsoft is one of the most valuable companies in the world.

Other iconic companies emulated this platform strategy. **Amazon.com, Inc.** doesn't manufacture everything it sells, opting instead to crowdsource the market onto its platform.

Netflix doesn't personally produce everything on its platform either. Even when it commissions the content directly, it's outside writers and producers who come to Netflix first to pitch the project.

Shopify is running a platform business model for e-commerce. Anywhere in the world, anyone can launch a Shopify website in minutes. These entrepreneurs can then incorporate value-add capabilities like inventory management, payment processing, marketing tools, and much more.

Here's the catch: most of these capabilities aren't built by Shopify. They're actually built by outside developers. Shopify merely built the platform.

Today, Shopify customers use the platform for all of the available capabilities. More users attracts more developers, adding even more capabilities to the system. Again, more capabilities attracts more users. The positive feedback loop has begun.

The next Netflix?

Platform stocks are mispriced year after year. Just take a look at the share prices of Microsoft, Amazon, or Netflix. The returns handily beat the market over the long term. After a decade of growth, these businesses *still* beat the market year after year.

The market hasn't realized that once a platform business gains traction, it almost never slows. The positive feedback loop grows more powerful each day, accelerating growth and pushing out all competitors.

There are certainly competitors to Netflix, Amazon, and Microsoft, but these businesses take a lion's share of their markets.

Shopify stock is in an earlier stage of growth, but the platform dynamics are already running at full strength. That phenomenon alone makes it likely to become the next Netflix.

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2. NASDAQ:NFLX (Netflix, Inc.)
3. NYSE:SHOP (Shopify Inc.)
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