



Why Shopify (TSX:SHOP) Stock Is the Next Amazon (NASDAQ:AMZN)

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has been a millionaire-maker stock. Since 2015, shares have risen by 1,600%, giving the company a market cap of \$67 billion. Over the next few years, however, Shopify could become the next **Amazon** ([NASDAQ:AMZN](#)), a company with 20 times the valuation.

Shopify's secret weapon is the same as Amazon's: a [platform approach](#).

Understand the secret weapon

If you want exponential growth, find a stock that uses a platform business model. These businesses harness the power of positive feedback loops, where the larger they grow, the stronger they become.

Google, owned by **Alphabet** ([NASDAQ:GOOGL](#))([NASDAQ:GOOG](#)), is a perfect example.

Google didn't create all of the content on the internet. It merely provides a way for internet users to search for the content. This is what an ideal platform does. It doesn't try to build everything itself. Rather, it simply builds the foundation, allowing others to build the rest. Since 2004, Google shares have risen by nearly 2,000%.

Amazon, of course, is another platform company that has achieved great success. It doesn't manufacture and sell every product on its website. Instead, it simply provides the marketplace for everyone else to sell through. Since 2004, Amazon shares are up by more than 4,660%.

Building a platform business is the first stage of exponential growth. Traction is the next step. This is what creates the positive feedback loop.

Google's algorithms are already the best in the world. It's why the company has a global market share of more than 90%. Better algorithms give the company more users. More users means more data, which means the company's algorithms get *even better*. This virtuous cycle makes it nearly impossible for another search engine to overtake the company.

Amazon benefits from the same phenomenon. Users flock to the company because it sells everything a consumer needs. That forces more sellers to the platform, which broadens the portfolio even further, attracting yet more customers. As with Google, it will be extremely difficult for a new competitor to overtake Amazon.

Meet the next Amazon

Shopify offers companies and entrepreneurs an e-commerce suite that makes it easy to launch an online storefront. This isn't that differentiated. There are many competitors in the space. What Shopify did differently, however, is go all-in on a platform approach.

Instead of building all of the capabilities itself, Shopify simply built the platform, included basic tools like payment processing, and opened the rest to outside developers. Anybody in the world can build on top of the Shopify platform. This has resulted in thousands of useful tools and capabilities that are unique to the Shopify platform. That attracts more users, which, in turn, attracts more developers looking to monetize their creations.

Today, Shopify has more than one million stores and is by far the leading e-commerce provider. As we've learned with other platform companies, this lead will only strengthen over time. Every day that Shopify grows, it becomes harder for competitors to catch up.

Shopify's business uses a powerful platform model. And it's already gained early traction. That's great news for shareholders considering the total addressable market could be more than \$1 trillion.

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