



Better Tech Stock: Shopify (TSX:SHOP) vs. Amazon (NASDAQ:AMZN)

Description

When it comes to e-commerce, there are only two names worth knowing: **Shopify Inc** ([TSX:SHOP](#)) ([NYSE:SHOP](#)) and **Amazon.com** ([NASDAQ:AMZN](#)). These two companies dominate online shopping, with the former having a 31% market share in e-commerce platforms and the latter having a 49% market share in U.S. e-commerce.

In light of this, it's natural to compare the two. Shopify and Amazon are essentially in the same industry, and many vendors sell on both platforms.

There are major differences between them, however. Amazon is primarily an online store that lets vendors sell on its site, while Shopify provides vendors the infrastructure to build their own sites. These distinctions make Shopify and Amazon fundamentally different beasts, but they're in tacit competition for vendors' fees.

Shopify and Amazon represent different takes on the future of e-commerce. On the one hand, you've got a decentralized, vendor-controlled vision; on the other hand, you've got a highly centralized "one-stop shop" vision. Whichever vision wins out in the end will determine the fates of investors in either company.

The case for Shopify

The biggest thing Shopify has going for it right now is growth.

In its most recent quarter, [revenue popped 47%](#) and adjusted earnings grew by 210% year over year. You just don't get these kinds of growth numbers from Amazon these days. As a young company, SHOP has far more room to grow than AMZN, which is reflected in its better-performing stock.

Shopify's product also has some advantages over Amazon—at least for some vendors. By providing a platform for building an independent website, Shopify gives vendors more control over branding, features and user experience. These features are valuable to larger brands, which may explain how SHOP has signed up so many celebrity vendors.

The case for Amazon

The case for Amazon rests on the fact that it's a much more profitable company than Shopify. In its most recent quarter, AMZN earned [\\$2.5 billion in net income](#). By contrast, SHOP earned \$23 million adjusted and a \$31 million GAAP net loss.

Amazon's profit numbers were down in Q1, but that's mainly because the company invested heavily in dealing with COVID-19. Revenue was up 26%. Speaking of which, Amazon is consistently posting incredible revenue growth for a company of its size. While Shopify is growing faster, Amazon is still a growth stock in every sense of the word.

Foolish takeaway

Over the last five years, Shopify's stock has performed far better than Amazon's. Since 2015, SHOP is up a blistering 2,900%, while Amazon is up a "mere" 472%. Although these are both fantastic returns, Shopify has clearly been the bigger winner.

The question is whether the SHOP can keep it up. While Shopify regularly posts strong revenue gains and positive adjusted earnings, its GAAP earnings are almost always negative. To be fair, Amazon was in the same position for a long time, and that never stopped it.

But Amazon is a consistently profitable company now, whereas Shopify has a long way to go before it gets there. Essentially, Amazon is the safer bet, while Shopify has more upside in a best-case scenario.

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