



Can Shopify (TSX:SHOP) Challenge Amazon in Its Own Game?

Description

In the last three months, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) has become the most valued stock on the **Toronto Stock Exchange**, with a market capitalization of \$162 billion. It has also become the second-largest SaaS (software-as-a-service) company by market capitalization after **Salesforce** on the **New York Stock Exchange**.

Shopify's stock rally comes on the back of investors' inflated expectation around its revenue growth in the next five to seven years. Piper Sandler's analyst Brent Bracelin expects the company's revenue to grow almost six-fold from US\$2.2 billion in 2020 to US\$12 billion in 2025. This inflated expectation is justified, as the COVID-19 pandemic has permanently changed the way consumers shop.

Meticulous Research [forecasts](#) the global e-commerce market to reach US\$24.3 billion by 2025. Shopify owns less than 1% of the market share, giving it tremendous room to grow. Investors believe that the current wave of e-commerce will make Shopify the next **Amazon** ([NASDAQ:AMZN](#)).

Amazon has been in the industry for 25 years. Last year, it earned US\$296 billion in revenue and commanded 37.3% of U.S. e-commerce sales. Can Shopify, which has US\$1.58 billion in annual revenue and 5.9% of U.S. e-commerce share, challenge Amazon in its own game?

How Shopify differentiates itself from Amazon

Amazon and Shopify offer all types of products right from electronics to food. They have the same end goal of increasing purchases on their platform. However, they adopt a different strategy to achieve this goal.

Shopify's strategy is that of a mall. In a mall, merchants rent a store and design it as per their branding and marketing strategy. Merchants get exposure to a broader set of audience that comes to the mall. Shopify offers the most comprehensive range of designs and templates from which merchants can choose and design their e-commerce store.

It also provides support services like shipping, payments, and online marketing.

It has partnered with popular online marketplaces like **eBay**, **Walmart**, and social media sites like **Facebook**, and **Pinterest**, giving merchants exposure to a broader customer base to help them boost their online sales.

Amazon's strategy is that of a supermarket store. In a supermarket, all competitive brands are kept side by side on the same shelf, and consumers choose from these brands.

Merchants have little freedom to do branding and marketing. Consumers log on to Amazon.com or download its mobile app and buy products from that platform. Amazon standardizes the overall consumer experience right from discounts and gift cards to packaging and delivery.

Amazon and Shopify will co-exist

Shopify has a merchant-centric approach, whereas Amazon has a consumer-centric approach. Moreover, Amazon itself is a retailer that poses a competitive threat to other retailers. Just as malls and convenience stores co-exist, Amazon and Shopify will co-exist because of their differing business strategies.

Retailers who feel a competitive threat from Amazon will have another option of Shopify. However, larger retailers with a good budget might probably choose both Amazon and Shopify for the different benefits they offer. Hence, the statement that Shopify could be the next Amazon doesn't imply that the two face a competitive threat from each other. Rather, it means that Shopify has the potential to create a brand name as big as Amazon.

Why should you invest in e-commerce?

The e-commerce market has many players. There are direct sellers like Walmart and **Costco**, which have their brick and motor store chains. They have opened their online store to stay competitive and cater to the changing needs of consumers.

Then there are marketplaces like eBay where both buyers and sellers create their accounts and buy and sell goods. Then there are SaaS companies like WooCommerce and Shopify that provide the online infrastructure, payments, and marketing service. There are also logistics and delivery service providers.

As the e-commerce market grows, companies are integrating services to offer a [comprehensive e-commerce ecosystem](#). Amazon and Shopify are well placed to provide a complete ecosystem that will design the future of retail.

They have the potential to report strong double-digit revenue growth for another decade and expand into adjacent markets like online advertising and related cloud services. They are suitable long-term investments, as their stock price will grow in tandem with their revenue.

CATEGORY

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)

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Author

pujatayal

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