



## Black Friday Tip: Forget Amazon and Look at Shopify

### Description

This Black Friday, many investors are going to have their eyes on **Amazon.com** ([NASDAQ:AMZN](#)). The world's largest e-commerce company by revenue, it is going to make a killing off Black Friday deals. It won't be the only company to do so — **Best Buy**, **Walmart**, and the countless vendors selling on Amazon will, too. But it's the most obvious beneficiary of the sales extravaganza that's about to take place.

With that said, Amazon will not be the company I'll be watching the most closely this coming Friday. Sure, Amazon's Black Friday sales numbers will be the stuff of legend, But **Shopify's** ([TSX:SHOP](#))([NYSE:SHOP](#)) results are going to be a lot more interesting. A much smaller company than Amazon, Shopify has a lot more room for incremental growth than Amazon does. This gives its stock a higher "returns ceiling" (in percentage terms) than Amazon has. So, Shopify has more, proportionally speaking, to gain here. In this article, I will explain why that's the case.

### Diminishing marginal returns

In economics, there's a concept called "[diminishing marginal returns](#)," which says that an extra unit of input produces a smaller increase in output past a certain level. It's hard to say when an individual company has hit diminishing returns, but Amazon, with its nearly \$400 billion in annual sales, looks like a candidate for it. Its most recent quarterly report showed huge declines in net income, free cash flow, and operating cash flow. Sales increased 15%, which is a slower rate of growth than in the past.

For Shopify, it's a different story. The company is still relatively small (at least compared to Amazon), and therefore it has more room to grow. In its most recent quarter, sales growth decelerated down to 46% from over 90%. However, its rate of growth was still triple Amazon's (15%). This kind of thing is common when we compare smaller tech companies to larger ones. Tech in general is known for [having better growth](#) than traditional industries, but small-cap tech is even more promising than large-cap tech. Shopify is far from "small cap," but it's small next to AMZN.

## Shopify getting cheaper

Another reason I find Shopify more interesting than Amazon heading into Black Friday weekend is that its stock is getting cheaper. On Monday, we saw a huge sector-wide selloff in tech stocks, one that took the NASDAQ down 1.26%. SHOP fell far more than the average tech stock that day, with a 5.24% decline. Amazon's loss was also pretty big, but at 2.83%, it wasn't as big as Shopify's. Neither of these companies reported significant news on Monday, so their recent selloffs look like buying opportunities. Shopify's selloff was, however, much more extreme than Amazon's, so the bargain available here looks more enticing.

## Foolish takeaway

Black Friday is almost here. And I know what stock I'll have my eyes on: Shopify. Well known for live-blogging its results over the course of the weekend, SHOP is going to put on quite the show for us. Yes, Amazon will make more money. But SHOP could deliver much bigger incremental gains.

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