Shopify Stock: Should Investors Fear Competition From Amazon?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock continues to exhibit absurd volatility, plunging nearly 9% on Monday's session of trade.

Undoubtedly, the stock split has done little to excite the many investors who've now moved on to firm's with more predictable cash flow streams. Sure, Shopify still has one of the most exciting growth stories in North America. However, with rising rates and the potential for the consumer to weaken in the face of a recession, it's unclear as to how the Canadian e-commerce darling will navigate through its first prolonged downturn as a publicly traded company.

Indeed, I viewed the firm's 10-to-1 stock split as unneeded. At this pace, Shopify stock could have gotten a big split at the hands of Mr. Market. Though negative momentum has begun to cool off, I'm still not keen on loading up the TFSA with the name. CEO Tobi Lütke may be a great founder-led manager, but he has a daunting task ahead of him, as the macro picture continues to get weaker with time.

It's not just rates, a weaker consumer, or tech-wide pressure that has me holding off on catching the falling knife that is Shopify stock. The firm could encounter growing competition, for which it may not have the answers to this time around.

Competition from Amazon could pressure Shopify stock

Of course, **Amazon** (NASDAQ:AMZN) is the disruptor that's back and ready to move in on the small- and medium-sized business (SMB) corner of e-commerce. Sure, Shopify has successfully nudged Amazon out of its niche before, but I'm not so sure it can repeat that, especially given the firm's incredibly deep pockets and strong network effects.

Prime users have proven incredibly sticky. And as Amazon looks to roll out its "Buy Now with Prime" service, which offers logistics and storage solutions for merchants, Shopify may have its hands tied.

The fact remains it's really hard to match up with Amazon and its ability to move out packages from its warehouses in a timely manner. Shopify's US$2.1 billion acquisition of order fulfillment firm Deliverr is an intriguing move that seems to be a counter to Amazon's "Buy Now with Prime" service. Deliverr can allow Shopify merchants to get packages out in between one and two days.

Indeed, two-day and next-day delivery is the standard set by Amazon. Consumers will grow to expect such rapid delivery times. Though Shopify's "Shop Promise" services are enticing, I'm unsure how they will stack up against Amazon this time around.

In addition, further investments to improve upon delivery times could bite into profitability prospects and at the worst possible time. These days, investors want to see margin enhancements and may punish firms that may have growing capital requirements.

The bottom line

Usually, it's the smaller firm that applies disruptive pressure to the larger firm. With "Buy with Prime," it's the behemoth that's challenging its smaller rival.

Though it will be interesting to see how Shopify stacks up as it integrates Deliverr, investors do not seem convinced. And at 9.3 times sales, the stock still is not cheap enough for my liking, given the risks involved.

If you're a long-term investor who's willing to average down, only then would I look to back up the truck in the low $400 levels. Shopify faces the fight of its life, as the perfect storm rolls in. Regardless, with Lütke hanging onto his special shares, SHOP investors are in very good hands.

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