



Shopify Just Threw a Big Lifeline to Meta Platforms and Alphabet

Description

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In early 2021, **Apple** turned the digital advertising world on its head. With a change to iOS 14, iPhone users were notified when an app wished to track their activities and were required to opt in to allow it to continue. This put a multibillion-dollar dent in the online advertising last year, disrupting companies including **Alphabet's** ([NASDAQ:GOOGL](#)) ([NASDAQ:GOOG](#)) Google and Facebook parent **Meta Platforms** ([NASDAQ:META](#)), which rely exclusively on targeted ads for the lion's share of their revenue.

Now, an unlikely alliance with **Shopify** ([TSX:SHOP](#)) is seeking to restore some of the status quo while providing the software-as-a-service (SaaS) company with a potentially lucrative growth engine.

Know your audience

Last year, Shopify debuted Audiences, a tool designed to identify and target high-interest buyers with digital advertising. The system aggregates input from cooperating Shopify Plus retailers, providing merchants with a way to pool their customer data.

The resulting information can then be uploaded to Google and Meta's digital ad systems and used to target comparable customers or those who bought similar products from other retailers. This helps merchants with one of their biggest challenges: discovering new customers that are ready to buy.

When it launched in early 2022, Audiences integrated with Facebook and Instagram ads but recently expanded to include Google Search, Google Display Network, Gmail, and YouTube.

Furthermore, Shopify recently upgraded the capabilities of Audiences, allowing merchants to include *all* the product categories within their stores rather than focusing solely on specific items. This gives retailers many more options for targeting potential customers, allowing them to focus on greater reach, driving conversions, or both. Audiences can also handle multiple advertising campaigns — with differing objectives — at the same time.

Perhaps the best thing about Shopify's Audiences is that it's designed to sidestep Apple's consumer privacy measures as it incorporates merchants' first-party data in order to target customers most likely to make a purchase. This acts as an important lifeline to Meta Platforms — and, to a lesser extent, Alphabet — as both companies have been adversely affected by Apple's policies while also providing an important growth area for Shopify.

Taking a page from Amazon's playbook

The process of aggregating data from its merchants to identify high-interest buyers takes a page directly from the playbook used by e-commerce rival **Amazon** ([NASDAQ:AMZN](#)). Over the past several years, advertising has become a key growth area for Amazon.

The e-commerce giant has quickly ascended the ranks to become the third-largest digital advertiser in the U.S., behind just Alphabet and Meta Platforms. In the third quarter, Amazon's ad revenue of US\$9.5 billion jumped 30% year over year (excluding currency fluctuations), outpacing both its rivals.

Audiences provides merchants with similar ad-targeting capabilities offered by Amazon while expanding beyond the limits of a single digital retail marketplace — including Google search, Instagram, and YouTube.

This suggests that if Shopify can recreate even a portion of the advertising success of its biggest rival, this could result in an important new market for the company at a time when online sales are down.

After generating near triple-digit growth at the height of the pandemic, Shopify's third-quarter revenue grew 22% year over year, weighed down by tough comps, a strong dollar, and slowing e-commerce adoption. Adding a potentially lucrative revenue stream would give Shopify a much-needed boost at a critical juncture in its history.

The opportunity is significant

Shopify is prioritizing investments with a “much shorter-term payback” period, and Audiences is an area of key focus, according to Harley Finkelstein, Shopify's president. “Especially right now, merchants want to be able to find more customers,” Finkelstein said recently.

While estimates vary, the internet advertising market is expected to top US\$700 billion in 2023, growing to more than US\$1 trillion by 2027. If Shopify can carve out even a small segment of the market for itself, this could mark the next stage in the company's growth.

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