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## Shopify CEO decries consumerism as sales fuel record revenue

*'Consumerism is not a thing that exists because people love buying things. It exists because people hate the things that they get to buy,' Tobi Lütke said*



Shopify Inc. chief executive Tobi Lütke: "We believe that the direct-to-consumer strategy is just better. It leads to truer products." PHOTO BY JUSTIN TANG/THE CANADIAN PRESS/FILE

Shopify Inc. chief executive Tobi Lütke admitted he was probably off on a tangent while talking to analysts on a conference call on Wednesday, after his firm's quarterly earnings update showed massive sales gains that dwarfed expectations. But if what he was saying was tangential, it was interesting: a secular homily, of sorts, on the ills of consumerism.

“Consumerism,” he said, “is not a thing that exists because people love buying things. It exists because people hate the things that they get to buy.”

The reason they hate those products, Lütke continued, is because of the oversized influence of big retailers.

“We are students of retail history,” he said. “Very mediocre products were the ones which tended to make it through the gatekeepers in the retailing process.”

Lütke didn't blame anyone specifically, but one retail giant has loomed large over the Ottawa-based tech firm, and that company, Amazon.com Inc., on Tuesday confirmed it is acquiring Selz.com Pty Ltd., an Australian competitor to Shopify, intensifying what many believe to be a concerted attack on the Canadian company.

On the earnings call, Lütke reaffirmed that Shopify — which provides the infrastructure for merchants to sell their wares independently online — was meant to destroy the gatekeepers, not join them. But some analysts believe Shopify could be missing out on a way to keep growing, since the huge gains in e-commerce last year are expected to slow in 2021 as vaccines roll out and restrictions ease.

Shopify reported US\$977.7 million in revenue during its fourth quarter, a 94 per cent jump from the previous year, helped along by the dramatic rise in online shopping during the pandemic. Total revenue for 2020 was almost \$3 billion, an 86 per cent increase over 2019, while net income grew to US\$319.5 million from a net loss of \$124.8 million.

RBC Dominion Securities Inc. analyst Paul Treiber said in a research note that Shopify's adjusted fourth-quarter earnings of US\$1.58 per share were more than 30 cents above average expectations.

“We expect that we will continue to grow revenue rapidly in 2021, albeit at a lower rate than in 2020,” Shopify's chief financial officer Amy Shapero said on Wednesday's conference call. “Shopify has a massive opportunity to shape the future of commerce and we are excited about 2021.”

But after a year when Shopify became the most valuable company in Canada, it's not clear where it goes from here, said **Chris Silvestre**, an analyst at **Veritas Investment Corp**. His research note on Shopify's earnings on Wednesday was titled, “Into the unknown.”

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Last spring, Shopify launched a new mobile app for consumers, rather than merchants. The company called it an “all-in-one mobile shopping assistant” that allows customers to browse different merchants that use Shopify's e-commerce platform.

The app offers accelerated checkout, package tracking and a buy-now-pay-later service, Shop Pay. By the beginning of 2021, Shop had 19 million monthly active users.

But the app isn't currently operating as a true third-party marketplace, such as Amazon or Etsy, which monetize transactions through commission fees and other methods, **Silvestre** said in an interview. Shifting the app toward an Amazon model would be “at odds with the mission and persona that the company has crafted so far,” he said, but it could also be lucrative.

“If Shopify were able to walk that fine line somehow and not alienate its merchants in the process, then it could be transformative for the company,” he said.

“One of the barriers, I think, to Shopify being much more highly valued is its ability to monetize transactions ... If you look at Amazon, over 30 per cent of every dollar that flows through its third-party marketplace, Amazon turns into revenue for itself. For Shopify, that number is three per cent or less.”

During the earnings call, Rosenblatt Securities analyst Mark Zgutowicz suggested the Shop app was “a big untapped opportunity,” which prompted Lütke to start on his tangent.

“Yeah. I mean, I agree it’s an untapped opportunity,” he said. “There’s an absolute obvious playbook for Shop that I think everyone can see.”

But Shopify is avoiding that play, choosing instead to be slow and measured in how it develops the new app.

“We believe that the direct-to-consumer strategy is just better. It leads to truer products. It actually is potentially a cure for this material consumerism,” Lütke said. “We are the last ones who want to create some distorting middle channel there, because we feel like one of the accomplishments of the company is to make this direct relationship work.”