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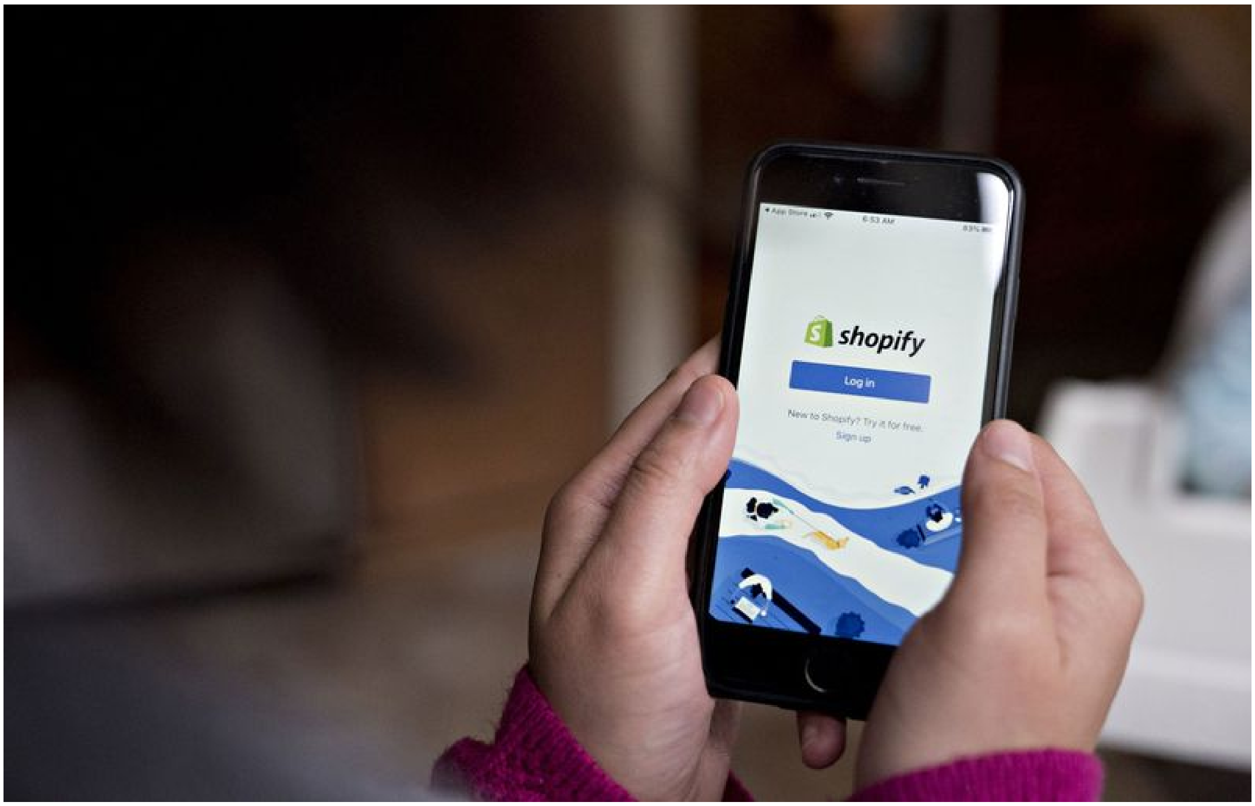
Shopify Is Enjoying a Big Moment and Hoping It Will Last

The creator of online storefronts for companies large and small has made its founder a billionaire.
By Natalie Obiko PearsonA



The Shopify app.
PHOTOGRAPHER: ANDREW HARRER/BLOOMBERG

In early April, as British consumers struggled to buy pantry staples amid the pandemic, Heinz decided to open its first-ever online store. Within days, the 151-year-old food brand had a website selling an assortment of beans, pasta hoops, and tomato soup for home delivery across the U.K. The virtual shop did so well that Heinz quickly expanded to offer its trademark condiments and baby food.

Behind the speedy e-commerce pivot was Shopify Inc., a Canadian company that's remained mostly invisible to consumers but has become the platform of choice for businesses seeking to get online quickly and cheaply. A monthly fee starting at $29 buys a virtual shop and all that's needed to run it, including the e-tools required to manage such things as payments, inventory levels, and shipping.

Shopify headquarters in Ottawa.

PHOTOGRAPHER: DAVID KAWAI/BLOOMBERG

In the U.S., the world's biggest e-commerce market after China, any purchase not made on Amazon.com Inc. is probably done via a website powered by Shopify. The Ottawa-based company claimed the second-largest share of online retail sales in the U.S. last year. Globally, it powers more than 1 million merchants across 175 countries, from Victoria Beckham's clothing line to megabrands such as Heineken and PepsiCo. All told, Shopify helped flog $61 billion of goods in 2019.

This year, the coronavirus has given Shopify—and online retail—a huge push. Whether the behavior shift is permanent remains to be seen, but it's put a tech company few had heard of into the spotlight.

Since January, Shopify's share price has almost doubled. Its $88 billion market value exceeds that of Target, Uber Technologies, or General Electric. Since May, it's been vying with the venerable Royal Bank of Canada as the country's largest publicly listed company.

Early on in the crisis, Tobi Lutke, Shopify's convention-bucking chief executive officer and founder, told staff to "delete all our existing plans and re-derive them from this new reality." For three days, employees dropped their usual jobs and focused on identifying what small businesses needed most to survive. In subsequent weeks, Shopify rushed out features to help merchants set up curbside pickup and local delivery. It announced new partnerships with Facebook Inc. and Pinterest Inc. to expand social media as a shopping tool. According to Chief Technology Officer Jean-Michel Lemieux, Shopify was seeing "Black Friday-level traffic every day" in April. As brick-and-mortar stalwarts such as J.C. Penney Co. and Neiman Marcus Group Inc. tipped into bankruptcy, Shopify saw a 62% surge in store creations over a six-week period. "The future of retail is everywhere," says Shopify Chief Operating Officer Harley Finkelstein. It's the kind of anywhere-and-everywhere retail that Shopify has aimed for since it was founded in 2006. Traditionally, merchants cobbled together applications to manage different channels. Shopify reduces that to a single platform. "The idea is no matter where or how you sell, it all feeds into one centralized back office where you can see and run the entirety of your business," says Finkelstein.

Shopify's share surge added $2.9 billion this year to Lutke's wealth, making him, at $6.3 billion, Canada's fifth-richest person, according to the Bloomberg Billionaires Index. Not that he's checking. The company has a policy that anyone caught talking about the stock price has to buy their team a batch of doughnuts from Canadian cult favorite Tim Hortons Inc.
The German-born 39-year-old, who dropped out of high school at 16, has a penchant for going against the grain. He started an e-commerce business in the wake of the dot-com bust, refusing to move the headquarters out of the sleepy Canadian capital. He likes to spend his Saturday nights hacking the company's systems to test their security, if his chief technology officer permits it.

In 2004, Lutke tried to sell snowboards online, but he found the software “incredibly expensive, unnecessarily complex, and infuriatingly inflexible.” He wrote some better code himself, quickly realizing the improved software was more valuable than the snow gear. In 2006, Shopify was launched as a simple tool for businesses to set up a homepage, and it evolved from there.

Shopify’s scale has meant an entire industry has sprung up around the company—smaller tech companies selling tools and templates that enhance a shopper’s experience. One, for example, has developed an app that automatically converts prices into the local currency of the person browsing, increasing the chance of a purchase. Shopify, in turn, has visibility across all its merchants on what’s trending and which themes and apps lead to sales—a treasure trove of data that helps small businesses boost their online odds.

That’s created a competitive moat around the company, making it harder for rivals to take it on. “That application ecosystem is very, very hard to break once it starts going,” says Gus Papageorgiou, head of research at PI Financial Corp. in Toronto. “You have scale, the data, and the ecosystem. I just don’t see who could break that at this stage.”

“My investment hypothesis on Shopify has been pretty easy,” says Papageorgiou. “Its competitive position is unassailable, the market is almost immeasurable, and the business model is highly compelling.” And there’s room to grow: Online spending accounted for just 16% of U.S. retail sales in 2019. According to Finkelstein, the percentage of online spending spiked significantly in March and April.

Still, the company’s stellar run has been hard to justify by traditional measures. Shopify has eked out a profit just once since it went public in 2015. At current prices, investors are paying more than $40 for every dollar in revenue the company generates—a multiple reminiscent of the dot-com bubble’s frothiest period. “It’s certainly a story stock,” says Julian Klymochko, CEO of Calgary-based investment firm Accelerate Financial Technologies. “It captures the mindset of investors,” which helps to push the share price up without any grounding in reality, he says.

The risk with stories, though, is they can get ahead of themselves. Canadians would know. Shopify’s rise recalls that of BlackBerry maker Research In Motion Ltd. and Nortel Networks Corp., which were also global tech giants and Canada’s most-valuable companies at their peaks. Both tumbled, the latter into bankruptcy, as the internet and mobile device revolutions played out. “Will Shopify be dominating e-commerce 20 years out? That’s a tough call,” says Klymochko.

Consumer spending may yet collapse as economies struggle to recover from a surge in unemployment. Shopify’s skeptics question how much of the pandemic-induced rush online would have happened anyway, or whether the company is merely borrowing against future growth. Perhaps more important, how many of the small merchants using Shopify will survive? (After the global financial crisis, thousands never recovered.) “It’s just not clear that Shopify will be larger or more profitable than it would have been absent Covid-19,” says ***Chris Silvestre***, an analyst at ***Veritas Investment Research.***

Still, whatever size the online retail pie ends up being, Shopify just grabbed a much larger share. The company’s biggest risk may be meeting investors’ lofty expectations. “It’s an incredible amount of pressure,” says ***Silvestre***. “And it’s largely out of their control.” —With Divya Balji

BOTTOM LINE - Shopify is only 14 years old, and it’s already taking on Amazon. Does it have staying power, or is it just too good a story?