



CONCOURS INTERNATIONAL D'ÉTUDE DE CAS MBA
JOHN & MOLSON
MBA INTERNATIONAL CASE COMPETITION

FINAL CASE

SHOPIFY INC— FROM BLUE OCEAN TO BLITZSCALING

Shopify Inc (Shopify) was a leading provider of essential internet infrastructure for e-commerce, where small business owners and entrepreneurs could manage a retail business online. Founded in 2004 in Ottawa, Shopify empowered millions of small businesses in more than 175 countries. Known brands that used e-commerce services from Shopify included Allbirds, Gymshark, Heinz, Tupperware, and Florists' Transworld Delivery.¹ Shopify believed that like Facebook owned “Social” and Google owned “Search,” Shopify could own “Entrepreneurship,” i.e., offer all services at the same location that an entrepreneur may require to manage the business. Accordingly, Tobi Lutke, CEO and co-founder of Shopify, expanded the company's business model. Lutke launched new lending and payment products, enhanced warehousing and distribution services, and launched a new film and TV production company that covered the life journey of entrepreneurs.² Lutke also offered its clients integration with other large technology companies like Facebook and Walmart, where entrepreneurs could advertise their businesses. Shopify's products portfolio included approximately 6,600 apps ecosystem to help merchants enhance their sales.³

Shopify was growing through blitzscaling, i.e., profitless growth, where revenues have consistently grown since its inception in 2006, but the company earned no profits. Shopify reported profits for the first time in 2021 (see Exhibit 1). Between 2015, when Shopify launched its IPO,

¹ Shopify completes acquisition of Deliverr to expand fast and easy fulfillment for merchants across multiple channels. (July 8, 2022). Shopify. <https://news.shopify.com/shopify-completes-acquisition-of-deliverr-to-expand-fast-and-easy-fulfillment-for-merchants-across-multiple-channels>

² Lu, Y. (November 24, 2020). Can Shopify compete with Amazon without becoming Amazon? *The New York Times*. <https://www.nytimes.com/2020/11/24/magazine/shopify.html>

³ Wheless, E. (April 28, 2021). Cheat Sheet: Shopify's revenues more than doubled, but the return to normal is coming. *Digiday*. <https://digiday.com/marketing/cheat-sheet-shopifys-revenues-more-than-doubled-but-the-return-to-normal-is-coming/>

up to 2020, when Shopify was reporting profitless growth, the stock market was overvaluing it in multiples of 50, i.e., valuation being 50 times more than expected revenues.⁴ However, once Shopify reported profits in 2021, followed by a net loss of \$1.5 billion in the first quarter of 2022, the stock market penalized the company, which drove its valuation down by 80% in September 2022 (see Exhibit 2). Shopify was still 1,200% above the stock price compared to its original valuation when it launched its IPO.⁵

Though investor sentiments changed towards the profitless growth of Shopify, Lutke, to fuel the company's growth, planned to invest more aggressively in sales and marketing to acquire more customers globally and compete aggressively against Amazon, which followed a marketplace business model. See Exhibit 3 for differences between Amazon and Shopify's business models. Angela Mondou, president and CEO of Technation, a technology industry association, described Shopify's evolution as "Once a unicorn, now a phenomenon and perhaps the only significant competitor to Amazon."⁶ However, financial analysts believed that aggressive growth would further hurt the profitability of Shopify as costs of operations may increase more than revenues.

To compete against the leading marketplace players like Amazon, Shopify launched an app targeted toward end consumers—the Shop app.⁷ However, merchants resisted, as consumers could

⁴ Thomas, G. (March, 2022). Shopify statistics 2022: Updated facts, market share & more. Acquireconvert.com. <https://acquireconvert.com/shopify-statistics/>

⁵ Pope, J. (September 17, 2022). Shopify's down 80%: Should you buy the dip on this e-commerce stock? *The Motley Fool*. <https://www.fool.com/investing/2022/09/17/shopifys-down-80-should-you-buy-the-dip-on-this-e/>

⁶ Shafiee, F. (June 4, 2022). Meet Tobias Lutke Shopify founder who makes a difference. *Popupsmart*. <https://popupsmart.com/blog/tobias-lutke-shopify>

⁷ Stone, M. (May 11, 2022). After stellar growth during the pandemic. *Business Insider*. <https://www.businessinsider.com/everything-you-need-to-know-shopify-culture-and-exec-exodus-2021-6>

see all competitors' listed products on the Shop app, similar to Amazon's app or website. Should Lutke pursue aggressive growth at the cost of profits? How can he compete against Amazon while also protecting the interest of merchants? Should Shopify not proceed with the Shop app? How can Lutke fulfill Shopify's intent of owning entrepreneurship?

To compete against the leading marketplace players like Amazon, Shopify was working on different features of its consumer-facing Shop app. However, merchants resisted, as consumers were able to see all competitors' listed products on Shopify's app, similar to Amazon's website. Should Lutke pursue aggressive growth at the cost of profits? How can he compete against Amazon while also protecting the interest of merchants? Should Shopify not proceed with the Shop app? How can he fulfill Shopify's intent of owning entrepreneurship?

COMPANY BACKGROUND

In 2006, Lutke, Daniel Weinand, and Scott Lake started Shopify in a small room in Ottawa, with a group of employees sharing a table. During its inception days, Shopify co-founders and employees used to work until late at night to develop a unified e-commerce system, which previous technology companies did not try to develop.⁸ The Shopify team created “an open-source template language, allowing more advanced users to create truly custom store templates, significantly expanding the versatility of the platform for retailers both big and small.”⁹ The Shopify team's energy was exhilarating. Commenting on the human capital involved with Shopify, Lutke said that Shopify employees came from different backgrounds, and the company encouraged them to be creative in their solutions and ideas.¹⁰

⁸ Shafiee, F. (June 4, 2022). Op. cit.

⁹ Simmons, R. (April 28, 2022). The history of Shopify. *Kubix*. Retrieved from <https://kubixmedia.co.uk/journal/the-history-of-shopify>

¹⁰ Shafiee, F. (June 4, 2022). Op. cit.

By 2015, Shopify grew into a publicly-listed company, and in May 2020, the e-commerce company replaced Royal Bank of Canada as the country's most valued company. Shopify's market valuation was of the order of \$120 billion.¹¹ In 2021, Shopify had 4,000 employees and earned over \$1 billion in revenue. In 2020, Shopify had 1,749,000 merchants from 175 countries trading on its platform. Seventy-three percent of Shopify's revenue came from North America, where 56% of its merchants were located. See Exhibit 4 for a region-wise breakdown of Shopify's revenue.¹²

EVOLUTION OF SHOPIFY: FINDING BLUE OCEAN

Lütke began his career as a computer programmer. As an avid snowboarder, he wanted to start an online snowboard shop along with Weinand and Lake. However, most e-commerce software was expensive, and Lutke was dissatisfied with the software features. According to Lutke, people without retail experience designed such software.¹³ Sharing problems associated with the then available e-commerce solutions, he said, "The terminology was wrong, approach was wrong." Lutke added, "I'm like, You can't organize a business the way this software forces you to."¹⁴ Thus, Lutke and the other co-founders discovered a more affordable Blue Ocean and decided to launch their e-commerce platform. Lutke also realized that most merchants wanting to do online business did not possess the technical skills to manage the sophisticated e-commerce platforms that existing players were offering. Finding the Blue Ocean with a

¹¹ Vandaele, I. (May 6, 2020). Shopify displaces RBC to become Canada's most valuable company. *BNN Bloomberg*. Retrieved from <https://www.bnnbloomberg.ca/shopify-displaces-rbc-to-become-canada-s-most-valuable-company-1.1432436>

¹² Warnimont, J. (April 27, 2022). 2022 Shopify revenue, statistics, and usage numbers. *Ecommerce Platform*. Retrieved from <https://ecommerce-platforms.com/articles/shopify-revenue>

¹³ Cole, T. (November 27, 2014). Our Canadian CEO of the year you've probably never heard of. *The Globe and Mail*. Retrieved from <https://www.theglobeandmail.com/report-on-business/rob-magazine/meet-our-ceo-of-the-year/article21734931/>

¹⁴ Ibid.

sizeable business merchant base, Lutke ensured that merchants on Shopify's platform could easily access and manage web portals based on several templates with the “easy to use” feature that Shopify offered for web designing.¹⁵

Businesses for most affordable web development projects required taking advantage of the economics of scale. Unlike traditional e-commerce service-providing firms, Lutke achieved economies of scale by providing an e-commerce solution. Businesses could share this solution with multiple retailers with some customization features. Businesses could also install additional plugins at an additional cost. Soon Lutke’s e-commerce platform was noticed by other startup community members, and they sent him a request for licensing the e-commerce platform’s software.¹⁶

Shopify targeted merchants across all retail verticals, from aspirational entrepreneurs to large enterprises.¹⁷ Marketing efforts, though, were primarily focused on small and medium-sized businesses and entrepreneurs. Shopify also hired a direct sales team to cater to the needs of large-size merchants. More than half a million small- and medium-sized businesses paid Shopify \$29 a month for the basic software,¹⁸ which aligned with Shopify’s Blue Ocean focus on offering cost-effective solutions for early-stage businesses.

Shopify made revenues through subscription plans and merchant solutions. It offered *subscriptions* as a three-tier solution, i.e., three types of subscription plans (see Exhibit 5).

¹⁵ Blue Ocean Strategy as an investment tool. (November 13, 2017). *Seeking Alpha*. <https://seekingalpha.com/instablog/47502253-blueoceanstocks/5069648-blue-ocean-strategy-investment-tool>

¹⁶ Shafiee, F. (June 4, 2022). Op. cit.

¹⁷ Shopify Inc.: 2020 annual reports. (December 31, 2022). Annualreports.com. Retrieved from <https://www.annualreports.com/Company/shopify-inc>

¹⁸ Cohan, P. (December 23, 2020). Why Amazon can’t beat Shopify. *Forbes*. Retrieved from <https://www.forbes.com/sites/petercohan/2020/12/23/why-amazon-cant-beat-shopify/?sh=5cbcf5de7d9d>

Shopify offered *merchant solutions* that offered other value-added services for which it charged fees, such as transaction fees. Several options were made available to merchants for transactions apart from Shopify's portal, such as PayPal or Amazon.¹⁹

CAPTURING THE PAIN POINT OF MERCHANTS AT AMAZON WITH SHOPIFY'S BLUE OCEAN

Amazon charged merchants a high price for its services. A clothing merchant who listed an item on Amazon's marketplace for \$50 was required to pay approximately \$20 of the proceeds to Amazon, with \$8.50 worth of the proceeds as sales commission, \$6.50 as advertising cost, and about \$5.00 as delivery service — i.e., Fulfillment by Amazon — for storing, picking, and packing the merchant's inventory.²⁰ Merchants also received little brand recognition and experienced weak bargaining power against Amazon. Amazon shipped the third-party products in its boxes, highlighted rival vendors on its site, and extracted extra fees for early reviews and dedicated account managers.²¹ Merchants paid fees for three services: sales, fulfillment, and ads. Amazon also increased its commission for every sale from 19% in 2015 to 30% by 2020.²² When sellers raised prices to accommodate the cost charged by Amazon, they had to keep prices the same on other online platforms, or else Amazon could suspend or demote their listings.²³

Amazon also engaged in developing competing products under its private label. In 2019, Amazon launched Galen, a shoe that looked the same as the Allbirds' bestseller, an independent e-retailer on Shopify but lacked environmentally friendly materials, and was priced 50% less than

¹⁹ Shopify Inc.: 2020 annual reports. (December 31, 2022). Op. cit.

²⁰ Cohan, P. (December 23, 2020). Op. cit.

²¹ Ibid.

²² Ibid.

²³ Morrison, S. (December 1, 2021). Amazon's strategy to squeeze marketplace sellers and maximize its own profits is evolving. *Vox*. Retrieved from <https://www.vox.com/recode/22810795/amazon-marketplace-prime-report>

the Allbirds shoe.²⁴ Allbirds is an American apparel and footwear company. Allbirds considered itself a differentiator. Joey Zwillinger, Allbirds’s co-founder and co-CEO, mentioned that given the commoditization at Amazon, Allbirds was not willing to sell at Amazon’s marketplace as it might damage “its brand and pricing power.”²⁵ According to Zwillinger, Amazon was a low-cost producer. Zwillinger added: “Amazon is designed to commoditize products to the lowest common denominator of what they stand for. They would love to devolve us into a feature-and-benefit set and then put every knockoff in the world next to us, and then just drive everybody down to the lowest price, even if you’re sacrificing quality.”²⁶ Amazon was noted to use merchants as an R&D outlet and identify successful products. These products were imitated by Amazon and were sold under its private labels at discounts. When Allbirds accused Amazon of infringement, Amazon denied the accusation and said, “offering products inspired by the trends to which customers are responding is a common practice across the retail industry.”²⁷ Stacy Mitchell, ILSR co-director said, “Amazon is the only winner here.”²⁸ Mitchell added, “It’s exploiting its monopoly power over these small businesses to pocket a huge and growing cut of their revenue.”

SHOPIFY’S COUNTER SOLUTION TO MERCHANTS AGAINST AMAZON

In 2014, The Globe and Mail newspaper named Lutke the CEO of the year in Canada. Lutke was famously known as “anti-Jeff Bezos” due to his differences in business philosophy with

²⁴ Cohan, P. (December 23, 2020). Op. cit.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Del Fiacco, J., & Mitchell, S. (December 1, 2021). In Vox: ILSR’s research exposes Amazon’s exploitation of marketplace sellers. *Institute for Local Self-Reliance*. Retrieved from <https://ilsr.org/in-vox-ilsrs-research-exposes-amazons-exploitation-of-marketplace-sellers/>

Jeff Bezos, founder and the ex-CEO of Amazon.²⁹ Lutke said, “Amazon is trying to build an empire. Shopify is trying to arm the rebels.”³⁰

Shopify unified all of a merchant’s commerce onto a single platform. With Shopify, merchants could develop and customize an online store and sell their products in multiple places, including web, mobile, in-person, brick-and-mortar locations, and pop-up shops, and across multiple channels from social media to online marketplaces.³¹ Times reported that during the 2020 Black Friday weekend, Shopify’s small retailers sold \$5.1 billion worth of goods — where Amazon’s third-party sellers sold merchandise of \$300 million in value. See Exhibit 3 for a comparison between Shopify and Amazon.

Till 2020, Amazon never considered Shopify as its competitor. However, the growth and popularity of Shopify drove Amazon to be an aggressive responder, and it acquired Selz, an Australian competitor of Shopify.³² Amazon also created a “top-secret task force” dedicated to examining and imitating certain parts of Shopify.³³ Amazon appointed Peter Larsen, the company vice president, to lead the initiative that the company named Project Santos.

In April 2022, Amazon launched the “Buy with Prime” feature for merchants that allowed merchants to add the Prime logo and offer Amazon’s speedy delivery options on their websites. With this feature, consumers who were members of the retail giant’s Prime loyalty club could check out using their Amazon account.³⁴ In September 2022, Shopify considering Amazon as its

²⁹ Shafiee, F. (June 4, 2022). Op. cit.

³⁰ Ibid.

³¹ Start selling with Shopify today. (2022). Shopify.com. Retrieved from <https://www.shopify.com/blog/what-is-shopify>

³² Shafiee, F. (June 4, 2022). Op. cit.

³³ Cohan, P. (December 23, 2020). Op. cit.

³⁴ Palmer, A. (September 1, 2022). Shopify warns merchants against using Amazon’s ‘Buy With Prime’ service. *CNBC*. Retrieved from <https://www.cnbc.com/2022/09/01/shopify-warns-sellers-against-using-amazons-buy-with-prime-service.html>

direct competitor, notified its merchants that it would not protect them from the “Buy with Prime” feature against fraudulent orders. The notice warned that Amazon’s service could steal customer data and charge customers incorrectly.³⁵

SHOPIFY’S GROWTH STRATEGIES

Diversification

In 2019, Shopify diversified into a full-service film and TV production company named Shopify Studios, which intended to inspire and redefine entrepreneurship through original, entertaining, and thought-provoking storytelling.³⁶ Shopify Studios developed, produced, and financed a wide range of content across various mediums, genres, and formats, such as documentaries and long-form series that spotlighted different facets of the entrepreneurial journey. Shopify Studios debuted its first program: “I Quit,” in 2020 on a major television network. It featured real-life entrepreneurs who gave up their “9-5” jobs to launch their businesses. Shopify aimed the program to enhance awareness of and catalyze entrepreneurship.³⁷ Harley Finkelstein, President of Shopify, said, “We launched Shopify Studios with a mission of showcasing the real stories and faces behind entrepreneurship that you don’t typically see in order to empower those seeking independence.”³⁸

In March 2021, Shopify Studios premiered its documentary, “Own the Room,” on Disney+, which followed five students from different parts of the world competing in the *Global Student Entrepreneur Awards*—the most prestigious competition for student entrepreneurs. Finkelstein

³⁵ Ibid.

³⁶ Shopify Studios: Inspiring movements original storytelling. (2022). Shopify.ca. Retrieved from <https://www.shopify.ca/studios>

³⁷ Shopify Inc.: 2020 annual reports. (December 31, 2022). Op. cit.

³⁸ ‘Own the room’— Produced by Shopify Studios — Premieres exclusively on Disney+. (February 8, 2021). Shopify.com. Retrieved from <https://news.shopify.com/own-the-room-produced-by-shopify-studios-premieres-exclusively-on-disney>

said, “We want to create a world where more young people are inspired to pursue their dreams, and we hope the documentary will show students this is possible.”³⁹

Shopify also offered working capital management help to merchants through its Shopify Capital Division. Shopify offered this in two ways: capital merchant and loans.⁴⁰ Through the capital merchant solution, a merchant could take an advance from Shopify up to some thousands of dollars, like \$5,000, depending on the merchant's risk profile.⁴¹ Shopify expected the merchant to return this money daily as a certain percentage, say 10% of their daily gross merchandise sales. There was no time limit to repay this amount. However, once a merchant made 25% of the payment, they could decide to pay the remaining as a lump sum amount.⁴² For loans, a merchant had to make a minimum payment for each milestone date.⁴³ See Exhibit 6 for growth through capital merchant solutions.

Shop Pay Installments was yet another service that Shopify offered merchants. Similar to the concept of “buy now, pay later,” Shop Pay Installments enabled merchants to sell their goods to buyers on an interest-free payment plan. Merchants received upfront payment for a sale from Shopify and were not required to worry about collecting future payments from the buyer. Shopify earned money as a percentage of total order value when buyers made payments for their purchases on the Shopify platform.⁴⁴

³⁹ Ibid.

⁴⁰ Shopify Capital merchant cash advance for merchants in the United States. (2022). Shopify.com. Retrieved from <https://help.shopify.com/en/manual/finances/shopify-capital/united-states/merchant-cash-advance>

⁴¹ Ibid.

⁴² Ibid.

⁴³ Shopify Capital glossary of terms. (2022). Shopify.com. Retrieved from <https://help.shopify.com/en/manual/finances/shopify-capital/shopify-capital-glossary#fixed-borrowing-cost>

⁴⁴ Boost sales with buy now, pay later. (2022). Shopify.com. Retrieved from <https://www.shopify.com/shop-pay-installments>

Backward Integration

Shopify integrated backward through alliances and began with an order fulfillment service in 2019, wherein merchants could ship their goods with Shopify, using its two-day delivery service, including inventory and product return management. Shopify launched the Shopify Fulfillment Network (SFN) in partnership with "seven existing third-party logistics providers" and upgraded their computing resources to work with the Shopify platform. Merchants were required to send their inventory to the fulfillment centers of Shopify in advance.⁴⁵ Whenever a customer ordered an item from a merchant, Shopify took care of delivery and return.⁴⁶ One of the online merchants appreciating Shopify mentioned: "On Cyber Monday our sales spiked to more than 16x [times] our average and Shopify Fulfillment Network handled the surge in orders perfectly. We heard from many happy customers two days later that they'd already received their order!"⁴⁷ Merchants could also use the "Fulfillment by Amazon" option on Shopify to store their inventory and fulfill orders from an Amazon.com fulfillment center.⁴⁸

However, by July 2022, Shopify acquired Deliverr, a third-party logistics company, to have a direct hold on logistics management. Deliverr had more than 80 warehouse locations across the US, two cross-dock facilities, five sortation centers, and access to 12 carriers.⁴⁹ Its technological capabilities had algorithms that placed inventory based on predicted demand. Aaron Brown, CEO

⁴⁵ Grow your business with two-day delivery. (2022). Shopify.com. Retrieved from <https://www.shopify.com/fulfillment>

⁴⁶ Introducing Shopify Fulfillment Network. (June 19, 2019). Shopify.com. Retrieved from <https://news.shopify.com/introducing-shopify-fulfillment-network>

⁴⁷ Grow your business with two-day delivery. (2022). Op. cit.

⁴⁸ Fulfillment by Amazon. (2022). Shopify.com. Retrieved from <https://help.shopify.com/en/manual/shipping/fulfillment-services/amazon>

⁴⁹ Garland, M. (May 6, 2022). Shopify buys Deliverr for \$2.1B to accelerate fulfillment network expansion. *Supply Chain Dive*. Retrieved from <https://www.supplychaindive.com/news/shopifys-purchase-of-deliverr-accelerate-fulfillment-network-amazon/623320/>

of Shopify's logistics group, commenting on merchants' benefits from SFN, said, “SFN will allow all merchants to better align the supply of their inventory with buyer demand as we remove complexity for merchants in one of the most challenging areas they face today: logistics. And soon, we will roll out another powerful feature of SFN called Shop Promise, which will offer reliable two- and next-day delivery options across the US.”⁵⁰

Shopify intended to incur approximately \$1 billion in capital expenditures in 2023 and 2024 towards warehouse hubs in crucial US markets to help deliver packages in two days or less to more than 90% of the US.⁵¹ Finkelstein, commenting on complimenting this organic investment along with alliances, said, “Now we run larger hubs as a backbone, but we’re also taking advantage of partners,” Finkelstein said. “It’s not as if this will be entirely Shopify-owned, but we want to match Shopify warehouses with partner warehouses, and we expect that quality will increase and the capacity will increase because of this change.”⁵²

Innovation Efforts

Shopify focused R&D efforts on product management, product development, and product design for e-commerce solutions.⁵³ To help merchants bridge the gap between in-person and digital commerce, Shopify invested in developing online and point-of-sale assets with a single commerce operating system. Data analytics and machine learning primarily informed Shopify’s R&D efforts.⁵⁴

⁵⁰ Shopify completes acquisition of Deliverr to expand fast and easy fulfillment for merchants across multiple channels. (July 8, 2022). Op. cit.

⁵¹ Garland, M. (May 6, 2022). Op. cit.

⁵² Ibid.

⁵³ Shopify Inc.: 2020 annual reports. (December 31, 2022). Op. cit.

⁵⁴ Ibid.

In 2021, Shopify launched a feature for global merchants operating in multiple geographies to manage all their stores and gauge their performances online at a central place at Shopify. It also enabled merchants to enhance the layout and aesthetic experience of the store and offered them a much broader scoped meta-field management opportunity.⁵⁵ Meta-field were custom fields where merchants could add more detailed information about their products. For instance, technical specifications, compatible devices (depending on the nature of the product), and discount details.

Shopify for Brick-and-Mortar Retailers

In 2018, Shopify opened its first physical store and office in Los Angeles. In its press release, Shopify commented on the reason for choosing Los Angeles: "We chose LA because the area is home to a large number of Shopify merchants who can benefit from the services and community the space will provide."⁵⁶ The new space offered merchants in-person support and access to events and workshops to gain new skills and level up their startup offerings. A Shopify spokesperson said, "after five years of investing in real life programming such as ShopTalk, Retail Tour, and ShopClass, we know that face-to-face help makes a huge difference for our partners' and merchants' businesses."⁵⁷

Shopify: Financial Performance

By 2022, in North America, from the gross merchandise volume perspective, Shopify was next to Amazon in market share, and among e-commerce platforms, it was a market leader (See Exhibit

⁵⁵ Luu, H. (June 2, 2022). Ultimate guide on using metafield in Shopify for business owners (June 2022 Updated). *Boost Commerce*. Retrieved from <https://boostcommerce.net/blogs/all/shopify-metafields-guide>

⁵⁶ Zubairi, A. (July 25, 2018). Shopify's first physical space opening in Los Angeles. *Betakit*. Retrieved from <https://betakit.com/shopifys-first-physical-space-opening-in-los-angeles/>

⁵⁷ Simpson, M. (March 25, 2019). Shopify expands retail presence as company fights for "Heart and Soul" of commerce. *Betakit*. Retrieved from <https://betakit.com/shopify-expands-retail-presence-as-company-fights-for-heart-and-soul-of-commerce/>

7). The number of merchants registering on Shopify constantly increased (see Exhibit 6). Accordingly, its sales were also growing; in 2020, Shopify reported sales growth of 86%.

Even before the COVID-19 pandemic, Shopify was an overvalued stock. During the COVID-19 pandemic, Shopify's price-to-sales ratio increased significantly to 60,⁵⁸ which was eight in 2016,⁵⁹ and investors believed that Shopify's growth during the COVID-19 pandemic was permanent. The price-to-sales ratio by July 2022 reduced to eight, similar to its value in 2016. According to some experts, this decline happened after Shopify made lay-off announcements, and the company predicted weakening demand and an inability to make profits soon. Lutke also acknowledged that he went wrong in his revenues forecasting.⁶⁰

However, Shopify's revenues were increasing even after the pandemic, similar to pre-pandemic days, though at a slower growth rate. Shopify also reported profit only for one quarter in 2021; over the years, it was primarily into losses (see Exhibit 1). According to another group of experts, Shopify's finances declined due to macro-environmental factors such as inflation, which reduced demand and did not reflect issues with Shopify's fundamental strategy.⁶¹ Shopify, in July 2022, reported a loss of three cents per share for the second quarter of 2022, where analysts were expecting a profit of 2 cents per share.⁶²

⁵⁸ Green, T. (July 27, 2022). Down 80%, Shopify stock exits nosebleed territory. *The Motley Fool*. Retrieved from <https://www.fool.com/investing/2022/07/27/down-80-shopify-stock-exits-nosebleed-territory/>

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Webster, C. (January 6, 2022). Shopify Stock News and Forecast: SHOP extends rout to hit eight-month lows. FXStreet. Retrieved from <https://www.fxstreet.com/news/shopify-stock-news-and-forecast-after-shop-dropped-10-where-is-the-next-entry-point-202201051342>

⁶² Datta, T., & Balu, N. (July 27, 2022). Shopify vows 'rigorous review' after surprise loss on easing online growth. *U.S. News*. Retrieved from <https://money.usnews.com/investing/news/articles/2022-07-27/shopify-reports-rise-in-quarterly-revenue>

Between 2014-2017, Shopify reported sales growth of 98%, signaling “proof of concept” of its business model, i.e., customers wanted services of Shopify.⁶³ However, Shopify did not increase the price of its monthly subscription plans since 2017, which according to analysts, adversely impacted Shopify's profitability.⁶⁴ Among different e-commerce platform service providers, Shopify had one of the largest market share (see Exhibit 7). Although the company was among the top e-commerce platforms globally, it reported negative net operating profit after tax margin and return on capital employed (see Exhibit 8).

By 2022, Shopify was on an expansion spree, such as expanding its partnership with Pinterest to 27 countries, permitting 1.7 million Shopify merchants to post products on Pinterest. Similarly, allying with TikTok allowed Shopify merchants to undertake marketing campaigns on TikTok from the Shopify dashboard.⁶⁵ Despite losses, Shopify was also incurring high costs to expand in the global SME market. According to experts, Shopify adopted this strategy to create entry barriers and build a competitive advantage against other smaller competitors.⁶⁶

Shopify: HRM and Leadership Practices

In May 2020, Shopify decided to let its employees work digitally, with most employees opting to work remotely permanently.⁶⁷ Lutke himself was active on social media and did lots of hiring from social media based on the candidate's credibility.⁶⁸ When a StarCraft developer was in the job

⁶³ Krejca, D. (September 22, 2017). Shopify: Overly expensive and a bit of an investing trap. *Seeking Alpha*. Retrieved from <https://seekingalpha.com/article/4108901-shopify-overly-expensive-and-bit-of-investing-trap>

⁶⁴ Trainer, D. (September 23, 2020). Don't add Shopify to your cart. *Forbes*. Retrieved from <https://www.forbes.com/sites/greatspeculations/2020/09/23/dont-add-shopify-to-your-cart/>

⁶⁵ Wheless, E. (April 28, 2021). Op. cit.

⁶⁶ Pala, P. (July 28, 2022). Shopify stock rallies despite quarterly loss. *Entrepreneur*. Retrieved from <https://www.entrepreneur.com/finance/shopify-stock-rallies-despite-quarterly-loss/432275>

⁶⁷ Shafiee, F. (June 4, 2022). Op. cit.

⁶⁸ Billionaire Shopify CEO finds out on Twitter that former SC2 pro SeleCT looks for internship. Hires him instantly based on Starcraft accomplishments. (October 2019). Reddit. Retrieved from

market and requested friends on Twitter to help them with a summer internship, Lutke noticed it and instantly offered an internship based on their StarCraft accomplishments.⁶⁹ StarCraft was a real-time strategy computer game. Shopify also hired directly from the Redditt community and answered questions from interested applicants. Find below an example:

“I’ve been a hiring manager at Shopify for 4 years now. This advice might sound standard, but just be yourself. There’s no way to optimize or prepare for the interview process. I could tell you exactly all the steps you’ll go through, and that still wouldn’t give you an advantage. You either have the skill and experience to work here, or not yet. And don’t worry about being fresh out of school. We want people of different experience levels and in the interview process we have different expectations for each. Good luck!”⁷⁰

Shopify Educational Services for Merchants and Other Stakeholders

Shopify, to increase AOV (Average order value) and maximize revenue generation, once a customer visited an online store, educated new e-tailers about the strategic importance of upselling and cross-selling. The company introduced the “Customers also bought” or “popular items” section on its platform that merchants could use to cross-sell products.⁷¹ Upselling equated to selling a “premium,” more expensive version of the product, such as a duo or family pack. Cross-selling resembled trademarked sections on the Amazon webpage, such as “customers also viewed” and “recommended for you” sections of related products.

https://www.reddit.com/r/starcraft/comments/dl3o2p/billionaire_shopify_ceo_finds_out_on_twitter_that/

⁶⁹ Ibid.

⁷⁰ Applying for a career with Shopify. (2019). Reddit. Retrieved from https://www.reddit.com/r/shopify/comments/fhiyhg/applying_for_a_career_with_shopify/

⁷¹ How to upsell & cross-sell on Shopify like a pro. (2022). *PageFly*. Retrieved from <https://academy.pagefly.io/guide/upselling-and-cross-selling/>

Shopify also released reports based on data it collected from its small and medium enterprise (SMEs) platform members and customers in the form of the “Future of Commerce” report and intended to release it every year.⁷² For instance, based on trends in 2021, it informed SMEs on its platforms that customer acquisition cost due to paid and organic search was increasing. Shopify also noticed that entrepreneurs were investing less in brand marketing and more in a performance like pay-per-click marketing. Based on these findings, Shopify encouraged SMEs to focus on performance and brand-building marketing strategies.⁷³

Similarly, Shopify noticed an increasing trend of online shopping among consumers, especially the younger generation from 20 years to 35 years of age. However, they were looking for a more personalized online shopping experience. Shopify also enabled online merchants to reward loyal customers through nonfungible tokens.

In 2019, Shopify also began to organize an Annual Conference, where developers and partners globally received an invitation. Lutke said, “Shopify’s real power comes from the variety and strength of our ecosystem.”⁷⁴ He added, “Unite gives our developer and partner community access to our product roadmap. Together, and only together, we can shape the future of commerce and empower entrepreneurs around the world.”

Shopify partnered with universities such as Carleton University, where Bachelor of Computer Science students were offered a multi-year internship with Shopify.⁷⁵ Selected Carleton

⁷² The Future of Commerce Trend Report: 2022. (2022). Shopify. Retrieved from https://enterprise.plus.shopify.com/rs/932-KRM-548/images/FOC_PDF_FA.pdf

⁷³ Ibid.

⁷⁴ Shopify unveils new innovations to transform commerce for merchants and consumers globally. (June 19, 2019). *Business Wire*. Retrieved from <https://www.businesswire.com/news/home/20190619005550/en/>

⁷⁵ Lord, C. (October 3, 2016). Shopify offers alternative vision of entrepreneurship education. *Ottawa Business Journal*. Retrieved from <https://obj.ca/index.php/article/shopify-offers-alternative-vision-entrepreneurship-education>

University students split their time between the university campus and Shopify's headquarters. Along with taking electives and core courses at the universities, students joined teams working on real-world projects at Shopify. Jean-Michel Lemieux, Shopify's senior vice president of engineering, said, "We designed this program with Carleton to give students the perfect mix of hands-on experience, self-paced learning, and theoretical foundations. They will have the opportunity over the next couple of years to learn and make changes to Shopify that will affect millions of people."⁷⁶

CONTROVERSY AGAINST COMPETING WITH AMAZON

In 2020, Shopify launched the Shop app targeted at end consumers with features of displaying local shops in search results, alerts of new products arriving in consumers' favorite shops, and the latest trends.⁷⁷ The Shop app aimed to develop more potent and direct relationships between merchants and their customers.⁷⁸ A company spokesperson said, "Our search experience is unique in that it prioritizes existing merchant-customer relationships, improving brand loyalty."⁷⁹ The spokesperson added, "When a shopper searches for a product on Shop, they'll first see their loyalty results, relevant products from the brands they've already purchased from or follow in the Shop app."

In the Shop app, Shopify worked on a search function that was similar to Amazon's marketplace. However, employees believed this could hurt merchants.⁸⁰ The search feature of

⁷⁶ Ibid.

⁷⁷ Stone, M. (November 18, 2021). Shopify is quietly testing a new search feature that insiders say could frustrate brands by making its app more like Amazon. *Business Insider*. Retrieved from <https://www.businessinsider.com/shopify-tests-search-function-shop-app-amazon-marketplace-2021-11>

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Ibid.

Shopify would allow consumers to search items on Shopify, i.e., consumers would be able to view all competing brands at once, like Amazon, ramping up competition among merchants. A Shopify employee said, "It's a fine line to walk."⁸¹ The employee added: "We don't want to put our merchants in a competitive arena like that." Yet another employee echoed, "There's a lot of scrutiny in place to make sure we're staying true to our values and building something that helps merchants." The employee added: "We don't want to build another Etsy or Amazon."⁸²

Shopify merchants were selling their products on Amazon in addition to their Shopify-hosted website. However, their personal preference was for Shopify. One of the merchants mentioned they favored selling via the direct-to-consumer model instead of on the Amazon marketplace. They did not like the idea of their products appearing next to similar products on the Amazon marketplace.⁸³ Joey Zwillinger, Allbirds's co-founder and co-CEO, said, "Amazon is designed to commoditize products to the lowest common denominator of what they stand for."⁸⁴ Zwillinger, about Amazon, added: "They would love to devolve us into a feature-and-benefit set and then put every knockoff in the world next to us, and then just drive everybody down to the lowest price, even if you're sacrificing quality."

Shopify's leadership team was clear that with their search interface, they did not intend to commoditize merchant's products. Finkelstein, commenting on comparisons with Amazon, said, "Those are very different types of buying behavior and also very different types of objectives: Am I buying something that I want and I'm going to cherish and enjoy, or am I buying something that I need because I'm out of detergent?"⁸⁵

⁸¹ Ibid.

⁸² Ibid.

⁸³ Ibid.

⁸⁴ Ibid.

⁸⁵ Ibid.

THE ROAD AHEAD

Mondou, commenting on the value created by Shopify, said, “the value Tobi creates is not just in Shopify, but it’s in empowering entrepreneurs globally to manage what is a huge burden in their business, which is the administrative side.”⁸⁶ However, experts expressed concerns about Shopify’s ability to directly compete against Amazon. Nikhil B. Trivedi, a venture capitalist who invested extensively in the e-commerce space, said, “You think about the three classic axes of business: convenience, quality and price,” “Amazon is very difficult to beat, I think, on both convenience and price. So really the way to go off on them is by offering differentiated, high-quality products.”⁸⁷ Shopify wanted to help merchants sell more on its platform.⁸⁸

According to a study in the US, most consumers (89%) preferred buying from Amazon to other e-commerce sites.⁸⁹ Commenting on the dilemma of e-retailers to trade at Amazon, Andrew Lipsman, principal analyst at eMarketer, said e-retailers were dealing with the trade-off as with Amazon, they got access to consumers. However, it came at the cost of margin. On the contrary, by owning a complete eCommerce site and advertising through Shopify, merchants could have more control over the business.⁹⁰ Shopify intended to advance its investment in logistics and fulfillment services as it wanted to dominate the e-commerce market further while defending itself from Amazon. How can Lutke successfully compete against Amazon? Should the competition and growth be at the cost of profits?

⁸⁶ Shafiee, F. (June 4, 2022). Op. cit.

⁸⁷ Lu, Y. (November 24, 2020). Op. cit.

⁸⁸ Simpson, M. (March 25, 2019). Op. cit.

⁸⁹ Masters, K. (March 20, 2019). 89% Of consumers are more likely to buy products from Amazon than other e-commerce sites: Study. *Forbes*. Retrieved from <https://www.forbes.com/sites/kirimasters/2019/03/20/study-89-of-consumers-are-more-likely-to-buy-products-from-amazon-than-other-e-commerce-sites/?sh=2419d3d04af1>

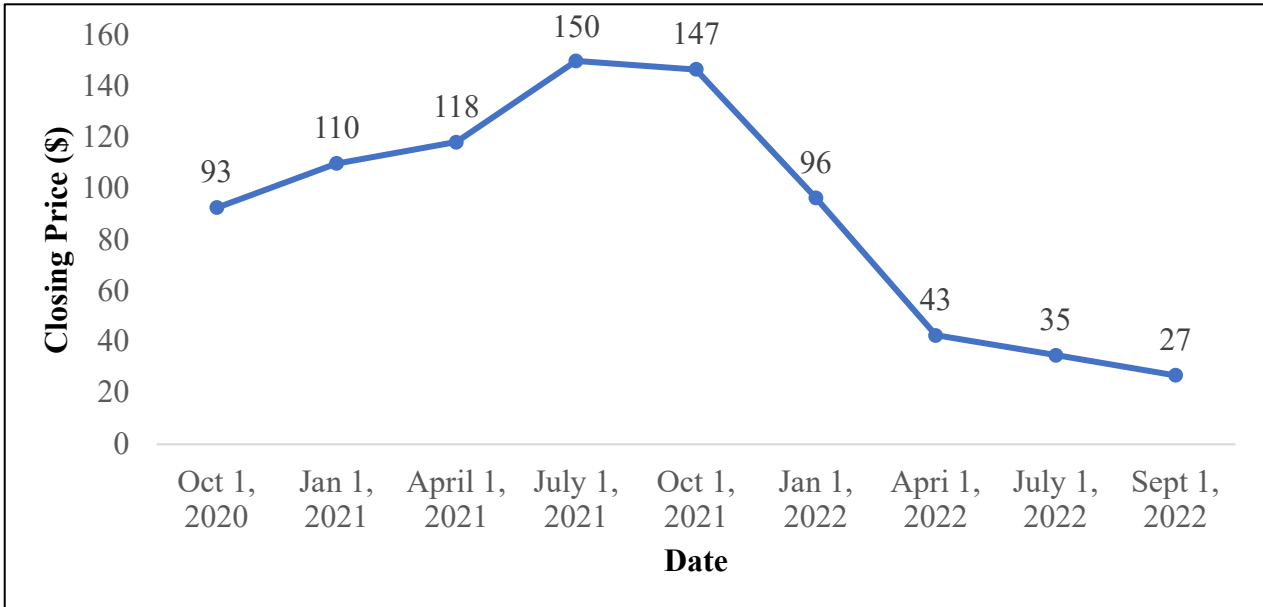
⁹⁰ Morrison, S. (December 1, 2021). Op. cit.

EXHIBIT 1: SHOPIFY FINANCIALS (2017-2022) (IN \$BILLION)

	2017	2018	2019	2020	2021
Revenue	0.673	1.073	1.578	2.929	4.612
Revenue Growth	-	59.40%	47.05%	85.63%	57.43%
Cost of Goods Sold (COGS) incl. D&A	0.302	0.488	0.729	1.426	2.174
COGS Growth	-	61.49%	49.31%	95.56%	52.46%
Gross Income	0.371	0.585	0.849	1.504	2.438
Gross Income Growth	-	57.69%	45.17%	77.10%	62.14%
SG&A Expense	0.423	0.673	0.985	1.374	2.11
Research & Development	0.131	0.226	0.344	0.531	0.847
Other SG&A	0.292	0.447	0.641	0.844	-
SGA Growth	-	58.84%	46.44%	39.54%	53.55%
EBIT	-0.053	-0.088	-0.136	0.129	0.328
Non-Operating Income/Expense	0.005	-0.006	-0.008	-0.002	0.023

Source: Shopify Inc: Annual report 2021. (December 31, 2021). Shopify.com. Retrieved from <https://investors.shopify.com/financial-reports/default.aspx>; Shopify Inc: Annual report 2019. (December 31, 2019). Shopify.com. Retrieved from <https://investors.shopify.com/financial-reports/default.aspx>; Shopify Inc: Annual report 2017. (December 31, 2017). Shopify.com. Retrieved from <https://investors.shopify.com/financial-reports/default.aspx>

EXHIBIT 2: SHOPIFY SHARE PRICES 2020-2022



Source: Shopify Inc. (SHOP). (2022). Yahoo Finance. Retrieved from <https://finance.yahoo.com/quote/SHOP/history?period1=1598918400&period2=1664496000&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true>

EXHIBIT 3: SHOPIFY VERSUS AMAZON

	Shopify	Amazon
Platform-type	Website builder and host	Third-party marketplace
Pricing	\$29 to \$299 per month	\$0.99 per each item sold on Individual plan; \$39.99 per month for Professional plan
Templates and Design	Offers an online web builder and a diverse collection of professional and free templates for serving need of merchants across various industry types	Could not control design of Amazon store
Marketing Options	Social media integration, Google Ads credits	Amazon paid ads
Transaction Fee	Zero percent on all plans when using Shopify Payments; If using an external payment gateway, transaction fees ranging from 2.4% to 2.9% including 1% for Shopify	Sellers need to pay a referral fee depending on the product category
Mobile-Friendly	Yes	Yes
Customer Support	24/7 live chat, email and phone support	Contact Amazon Seller Support team via

Source: Danao, M., & Main, K. (September 22, 2022). Shopify Vs. Amazon (2022 Comparison). *Forbes*. Retrieved from <https://www.forbes.com/advisor/business/software/shopify-vs-amazon/>

EXHIBIT 4: TOTAL REVENUE OF SHOPIFY BY GEOGRAPHIC LOCATIONS OF COMPANY MERCHANTS (2019-2021)

		Revenue (In \$Billion)			Revenue (%)		
		2019	2020	2021	2019	2020	2021
North America							
	<i>Canada</i>	0.1	0.19	0.32	6.1	6.6	6.9
	<i>United States of America</i>	1.08	1.95	2.97	68.4	66.7	64.5
Europe, Middle East, and Africa		0.22	0.45	0.8	14.2	15.5	17.3
Asia Pacific, Australia, and China		0.16	0.29	0.47	10	10	10.1
Latin America		0.02	0.04	0.05	1.3	1.2	1.2
Total Revenue		1.58	2.93	4.61			

Source: Shopify Inc: Annual report 2021. (December 31, 2021). Shopify.com. Retrieved from https://s27.q4cdn.com/572064924/files/doc_financials/2021/q4/99a0d08d-4015-4a0a-a8fb-fe6ec66553c4.pdf

EXHIBIT 5: SHOPIFY PRICING PLANS (2022)

Plan		Basic	Shopify	Advanced
Per month		\$29	\$79	\$299
Features		Everything a merchant needs to create for their store, ship products, and process payments	Features of Basic plan + Professional reporting and more staff accounts	Shopify Plan + Custom reporting and lowest transaction fee
		Basic report; 2 staff accounts; Up to 4 inventory locations; Up to 77% shipping discount	Professional reports; 5 staff accounts; Up to 5 inventory locations; Up to 88% shipping discount	Custom report builder; 15 staff accounts; Up to 8 inventory locations; Up to 88% shipping discount
Credit card fee charged by Shopify	Online	2.9% + 30¢ USD online	2.6% + 30¢ USD online	2.4% + 30¢ USD online
	in Person	2.7% + 0¢ USD in person	2.5% + 0¢ USD in person	2.4% + 0¢ USD in person

Source: Shopify (2022). Set up your store, pick a plan later. Shopify.com. Retrieved from <https://www.shopify.com/pricing>

EXHIBIT 6: SHOPIFY: CAPITAL MERCHANT CASH ADVANCES, NUMBER OF MERCHANTS, AND NUMBER OF SHOPPERS (2016-2022)

	Capital Merchant Cash Advances (In \$ Million)	Number of Merchants (In Thousands)	Number of Shoppers Making a Purchase from Shopify Store (In Million)
2016 Q4	14.5	375	100
2017 Q4	39.7	609	163
2018 Q4	71.8	820	216
2019 Q4	115.9	1,069	300
2020 Q4	226.9	1,749	457
2021 Q4	323.7		
2022 Q2	416.4		

Source: Shopify capital merchant cash advances (2016-2022). (2022). *Marketplace Pulse*. Retrieved from <https://www.marketplacepulse.com/stats/shopify/shopify-capital-merchant-cash-advances-135> ; Shopify number of merchants (2012-2020). (2022). *Marketplace Pulse*. Retrieved from <https://www.marketplacepulse.com/stats/shopify/shopify-number-of-merchants-41> ; Ruby, D. (May 31, 2022). Shopify statistics 2022: Revenue, facts & trends. *Demand Sage*. Retrieved from <https://www.demandsage.com/shopify-statistics/>

EXHIBIT 7: GROSS MERCHANDISE VALUE AND MOST POPULAR COMMERCE PLATFORMS USED BY ONLINE MERCHANTS (2022): SHOPIFY VERSUS PEERS

Marketplace Gross Merchandise Volume		Most Popular Commerce Platforms Used by Online Merchants	
Amazon	39.00%	Shopify	32.00%
Shopify	8.60%	WooCommerce	22.00%
Walmart	5.80%	Wix Stores	14.00%
eBay	4.90%	Squarespace Add to Cart	11.00%
Apple	3.50%	Ecwid	5.00%

Source: Warnimont, J. (April 27, 2022). 2022 Shopify revenue, statistics, and usage numbers. *Ecommerce Platform*. Retrieved from <https://ecommerce-platforms.com/articles/shopify-revenue>

EXHIBIT 8: SHOPIFY’S NOPAT MARGIN, INVESTED CAPITAL TURNS, AND ROIC VS. PEERS

Company	IC Turns	NOPAT Margin	ROIC
Etsy Inc.	2.2	16%	35%
Adobe Systems Inc.	0.9	31%	26%
Oracle Corporation	0.7	31%	21%
Square Inc.	4.7	4%	18%
SAP SE	0.7	15%	11%
GoDaddy Inc.	0.9	10%	9%
Salesforce.com Inc.	0.6	1%	1%
Shopify Inc.	1.6	-3%	-5%
Wix.com Ltd.	-18.5	-15%	NA
Market-Capitalization-Weighted Average of Peers	0.72	17%	15%

Source: Trainer, D. (September 25, 2020). Don’t add this risk to your cart. LinkedIn. Retrieved from <https://www.linkedin.com/pulse/dont-add-risk-your-cart-david-trainer/>

