

# **Group Case Report**

Group 13

Professor Ritu Virk

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ADM 2313 [A]

### **Personal Ethical Statement Concerning Telfer School Assignments**


#### **Group Assignment:**

By signing this Statement, I am attesting to the fact that I have reviewed not only my own work, but the work of my colleagues, in its entirety.

I attest to the fact that my own work in this project meets all of the rules of quotation and referencing in use at the Telfer School of Management at the University of Ottawa, as well as adheres to the fraud policies as outlined in the Academic Regulations in the University's Undergraduate Studies Calendar. Academic Fraud Webpage

To the best of my knowledge, I also believe that each of my group colleagues has also met the rules of quotation and referencing aforementioned in this Statement.

I understand that if my group assignment is submitted without a signed copy of this Personal Ethics Statement from each group member, it will be interpreted by the Telfer School that the missing student(s) signature is confirmation of non-participation of the aforementioned student(s) in the required work.

<b>Last Name</b>	<b>First Name</b>	<b>Student Number</b>	<b>Date</b>	<b>Signature</b>
Jotika	Subba	300120855	November 20th, 2022	
Wang	Yifan	300160047	November 20th, 2022	
Johnson	Jack	300013290	November 20th, 2022	
Momah	Neto	300205865	November 20th, 2022	momah
Eada	Vaishnavi	300185330	November 20th, 2022	<i>Vaishnavi Eada</i>

## **Analysis**

### **Strengths**

A prominent strength that Shopify enjoys is that they claim the largest market share in the ecommerce provider industry. Specifically, Shopify has 22% of the global ecommerce provider market. (Geldart, 2022) Furthermore, 1 in 3 online stores based in the United States of America are operated using Shopify. (Geldart, 2022) In a country where a clear majority of businesses are represented online and offer ecommerce services through a website, being this dominant in the United States in addition to a global lead is extremely significant. This lead puts Shopify clearly ahead of other players in this market such as WooCommerce who claims 17% of the market, Magento with 5% of the market, and BigCommerce with 4%. (Geldart, 2022) This puts Shopify in what is known as the central position. In the eyes of the public, Shopify has used this central position to solidify themselves as the industry standard and as a provider of a higher quality product compared to competitors. When in this central position, companies can enjoy additional advantages. One of these advantages is the ability to charge a higher price than competitors.

An extremely large and talented team is another strength that Shopify holds. As of May 2022, Shopify employs over 10,000 team members to maintain and improve their services. (Stone, 2022) This is an extremely extensive group on its own but even more so when compared to their competitors. Wordpress, one of the oldest players in the web design industry and a relatively new competitor in the ecommerce provider industry, employs just over 1100 people as of July 2022. (Digital.com, 2022) With almost ten times the employees of a notable competitor, it's clear that Shopify views investment in human capital as a source for their competitive advantage. While a team this large could also be a hinderance, Shopify is able to lean on it as a source of strength. For example, Wordpress is likely able to communicate much more quickly with all members of their team with a top-down approach when compared to Shopify. However,

the advantage of simply having such a large group to allocate tasks to would far outweigh a slight latency in communication.

Another strength of Shopify is that their large customer base is highly satisfied and are regularly developed from customers into brand advocates. Shopify accomplishes this through a variety of methods, like maintaining a close relationship with their customers, but their high-quality support is a main method. Shopify offers high quality unlimited free support over email, telephone, and instant live chat which is available 24 hours a day 7 days a week. (Popovic, 2020) What's important as well is that Shopify goes beyond simple technical support by employing support people who are happy to extend advice for other areas such as marketing and overall growth. (Popovic, 2020) This high level of support is also impressive when compared to other players in the ecommerce service market. SAP Hybris, a competing platform, charges their users for access to their support services and is infamous for long wait times. (Berry, 2019)

## **Weaknesses**

One main weakness of Shopify is that they charge a transaction fee for every purchase placed on a Shopify store. The transaction fee varies based on the plan subscribed to and the payment method used and can be between 0.5% for the most expensive plan and 3.5% for the cheapest plan. (Shopify Pricing, n.d.) This is a prominent revenue source for Shopify but is surprisingly not replicated by all other competitors. If you want to use competing platforms such as Magento or ZenCart, you won't need to charge your customers a transaction fee for each purchase.

Another weakness is that Shopify only allows their merchants to change certain parts of its functionality and is not as customizable as self-hosted platforms, some of which may allow you to change almost everything. Wix for example is known for having fully customizable themes for their users' websites. Shopify uses unique settings to customize their themes, rather

than allowing merchants to fully personalize them. For some people, this is positive in some ways due to simplicity and ease of use, but for those who prefer to have full control this is a clear downside.

## **Opportunities**

The threat of new entrants is not a particularly potent threat because of the barrier to entry of the ecommerce industry. To become a prominent competitor in this industry, one must have a large capable team, an existing customer base, and vast resources. Purely the amount of capital needed to start an ecommerce service provider is so much that it is unlikely that a new company could make it after beginning. The amount of extremely large established players in this industry also makes it very hard for new entrants to survive.

The buying power of suppliers is also low. This is mainly because the traditional concept of suppliers doesn't necessarily apply to an internet-based company such as Shopify. We could consider the employees of Shopify to be suppliers (of labour and human capital) but in that case as well the bargaining power would be low. Because of the lack of traditional suppliers in this industry, the buying power of suppliers is low.

## **Threats**

One threat that cannot be ignored by Shopify is the threat of competitors. While Shopify originally reached notoriety as the first website builder specifically meant to create online businesses, it rose to success easily. However, other traditional website builders such as Squarespace, Wix, and Wordpress, have been slowly introducing e-commerce capability into their platforms and now are more present in the ecommerce service industry than just in the website builder industry. Today, essentially every website building platform offers some form of ecommerce capability. While most of these platforms do not offer services that are of the same

quality or sophistication as Shopify, this trend has potential to seriously dilute Shopify's market share and increase competitive pressure. Shopify owns the dominant position, meaning they must be especially focused on allocating resources to maintain this position despite surging competitors.

Another present threat is that the power of buyers is high. This is mainly a result of Shopify's highly competitive business environment. While switching costs do exist in multiple forms, there are still millions of current and prospective customers in the market who are targeted by a large group of established competitors. Another factor that increases this buyer's power is that Shopify is often the more expensive service when compared to others. (Shopify Pricing, n.d.) A result of this abundance of cheaper options is that more price-sensitive customers could be won over by competitors solely based on this fact.

A third threat that cannot be ignored is the threat of substitutes. While we have touched on the threat of competing companies, another element is the threat of prospective and current customers transitioning away from ecommerce and toward other methods of doing business. This is a very real threat for Shopify as we have seen demonstrated in the past few months. To summarize, the pandemic drove many businesses online which greatly benefited Shopify. However, the ease of pandemic restrictions enabled customers and businesses to return to in person commerce which resulted in major losses for the company. As a result, traditional in-person shopping is the main threatening substitute for Shopify's services. While ecommerce still only represents a mere 10% of retail overall, it could be argued that consumers have signaled a preference for traditional brick-and-mortar businesses. (Schroeder, 2019)

Generally speaking, the ecommerce service industry is slightly more unattractive than attractive. While the threat of new entrants and bargaining power of suppliers are low/weak, we also find that the threat of competitors, buyers' power, and threat of substitutes is high.

Shopify could use its strength in market share and dominant position to tackle the threat of their competitors. As Shopify is already in the central position with the most market share, they can use their advantage of already being very established to strategically outcompete other companies. Being in this position gives them further advantages of customer confidence and greater resources, which will aid them in planning and implementing competitive strategies.

Shopify could also use their strength in their highly satisfied customer base and superior product to tackle the threat of high buyer power. Because Shopify has a highly satisfied customer base and a high-quality product that they advocate for, Shopify can work to justify their higher price to prospective and current customers. The presence of cheaper alternatives in the market is less threatening when the consumer base regards Shopify's product as clearly superior to competitors.

The weaknesses mentioned previously in this section should not be ignored. While less imposing than the company's strengths, they do have the potential to prevent Shopify from capitalizing on their opportunities and tackling present threats. More specifically, the fact that Shopify charges sizable transaction fees is a point that could prevent the company in avoiding the threat of substitutes. As mentioned, traditional in-person shopping is the most threatening substitute for Shopify's services. With so many brick-and-mortar business going between using Shopify's services and not using them as we have seen, these sizable transaction fees could be enough to make on-the-fence businesses stick to traditional retail. For example, if you are a brick-mortar-business that contributed to Shopify's success by signing up for their services to

mitigate the effects of the COVID restrictions, you may now be tempted to leave Shopify and focus on traditional retail because of the large transaction fees.

### **Alternative 1**

Managing the marketplace can be very difficult when it comes to Shopify. This single website powers about 3.8 million e-commerce stores (Singleton 2022). And although the main goal of Shopify was to allow businesses to run their companies with ease, it seems to have the opposite effect. Many find that running a business on the Shopify platform is rather difficult to manage. These business owners experience a great deal of pressure and workload trying to make their entrepreneurial dreams come true.

Since many Shopify business owners have complained about the difficulty, they face trying to run their companies, Shopify has partnered with some apps to make management an easy feat. One of these apps is called Amazon by CedCommerce. Their main selling point was the fact that they; “Create and synchronize your listings between Shopify and Amazon to reach 300+ million active and unique visitors” (Krishna 2021). This app serves sellers from the United States, Canada, and the United Kingdom. The Amazon by Cedcommerce promises a one-step solution to an easy, fast, and no-fuss selling all in one app. Some features that this app provides are listing new or linking existing Amazon inventory to Shopify, real-time product data syncing, simple order flow from Amazon to Shopify, etc. By using these features, users can rise above their competition and make their businesses thrive.

To date, Shopify is one of the world’s leading e-commerce platforms. It is home to over 1.75 billion businesses and continues to grow every day (Reaz 2022). To stay competitive in such an active consumer space, marketing is crucial. Shopify has a strong sense of creativity, and they provide every user with opportunities to build and enhance their website. Shopify’s Website



Builder products are tailored specifically to cater to the user's business needs. This fully integrated program offers an extensive range of themes, apps, channels, and so much more. Moreover, Shopify allows entrepreneurs to design and sell their own products easily by implementing cloud-based software. It makes for an easy and accessible way to design websites and maximize growth for those who are not tech-savvy.

Overall, although many have avoided using Shopify to start their businesses, these alternatives have proven that Shopify is working on fixing the main issue of easy marketplace management opportunities. To control inventory and expand business engagement, Amazon by CedCommerce is a great way to connect Shopify and Amazon. It provides sellers the opportunity to manage their inventory across both platforms and encourages more customers to interact with their businesses on both Shopify and Amazon. Also, by taking note of the lack in allowing users to be creative with their websites, Shopify implemented a feature that enabled maximum creativity. These two factors are major upgrades that will give users the ability to have a more enjoyable experience in managing their marketplace.

## **Alternative 2**

The unanticipated outbreak upended both the company's conventional sales approach and customers' purchase patterns. The stock price of Shopify increased by 350% in 2020. However, after the epidemic, consumer buying patterns returned to where they were before the pandemic. This was due to the fact that the previous lockdowns had driven many consumers to select in-person shopping and retaliatory offline spending. As a result, revenue and profitability for Shopify dropped significantly in the post-pandemic period, leading to a 76% decline in the company's stock price from its previous peak (Costa, 2022).

In addition to the expansion of their firm and the satisfaction of the needs of their customers, they are boosting the strength of their brand recognition. Because more companies are entering the worldwide e-commerce sector and the level of competition is heating up, Shopify is working to improve the competitiveness of its independent sites. Despite acquiring Deliverr in 2022 to help it with its cross-border logistical challenges, Shopify is still unable to compete with Amazon when the two companies are pitted against one another (Scott, 2022). Customers who shop online are more likely to purchase from businesses with stronger brand awareness and more reliable delivery services. Customers often choose Amazon over Shopify due to robust brand recognition and large worldwide marketing reach (Zhang X. 2020). The following is a detailed overview of how Shopify can increase its customer acquisition, brand recognition, and image.

Shopify must consider establishing long-term customer relationships to offset the increased cost of advertising. Rather than attracting temporary customers who start an online store on Shopify's platform but later switch to competing platforms like Wix and Squarespace, Shopify should focus on attracting customers who will remain on Shopify's platform over the long term. As a result of the epidemic, some customers are gravitating toward in-person shopping experiences. On the other hand, the barriers to entry for the entire e-commerce business continue to decrease. This is because the independent site builder segment is maturing, and various e-commerce platforms are penetrating multiple regions. Shopify not only needs a merchant community but also has the potential to grow a consumer community that caters to customers with various engagement preferences. It also allows Shopify merchants to observe what their consumers are thinking, which enables them to enhance the quality of their products and attract more customers. This results in a positive feedback loop, which encourages other small and medium-sized enterprises to open online stores through Shopify and, in some cases,

brings customers who cannot shop offline to Shopify. However, even if Shopify successfully recruits small and medium-sized businesses to build their websites, those businesses may still choose to conduct their online commerce with Shopify's rival, Squarespace, since Shopify charges a monthly plan fee of at least \$38 and a transaction fee up to 3.5% per transaction (*Shopify Pricing - Setup and Open Your Online Store Today – Free Trial*, n.d.).

In contrast, Squarespace does not charge a transaction fee for its basic or advanced plans. Shopify can provide certain SMBs with a free trial that lasts for a longer period of time, a free logistics service, and some basic support for beginning a store. Small and medium-sized businesses will be able to evaluate Shopify compared to other independent website companies as a result of this.

The second point relates to the logistics of transportation and supply chains after the epidemic. First, the global supply chain is in a more precarious state than ever before, and many businesses worldwide are just beginning the laborious process of regaining control of their supply chains. Since Shopify recently completed the acquisition of Deliverr, the company must now evaluate how to merge both parties' resources and supply operations, as well as ways to improve delivery efficiency from the store to the end customer. For instance, from the point of view of the product's manufacturer, moving on to the point of view of the product's centralized warehousing and distribution. Shopify also has a long way to go in being sustainable and protecting the environment, two areas in which it currently requires significant development. Particularly in the market of North America, where consumers place a high value on sustainability, and in the rest of the world, where the notion is gaining more and more popularity (Alicke et al., 2021). According to the report "Future of Commerce 2022," published by Shopify, 46 percent of businesses have plans to invest in making it easier for customers to recycle products, 39 percent have plans to invest in using natural, recycled, or renewable materials, and

39 percent want to improve their production efficiency processes (*The Future of Commerce: Industry Report (2022)* / Shopify, n.d.).

Even though Shopify has collaborated with McKinsey, Stripe, Alphabet, and Meta to commit to the removal of \$925 million worth of carbon dioxide from the atmosphere, Shopify should consider what story points in the process of shipping and logistics can tell customers, such as what the company is doing to advance or achieve sustainability. Customers' positive opinions of a brand can grow by 41% worldwide once they perceive that the brand has a good impact on the environment and society (*McKinsey Partners With Stripe, Alphabet, Shopify, and Meta on \$925 Million Carbon Removal Commitment*, n.d.). Shopify can encourage merchants to make a sustainability commitment and how it is being advanced, and then the store can be pushed first on search engines. More than half of consumers already make purchasing decisions based on the sustainability commitments of the brands and goods they purchase. When customers pay greater attention to brands, platforms for the environment, human contributions and efforts, then we will have the best of all worlds, particularly in the post-epidemic period. For instance, whether your packaging can use environmentally friendly and biodegradable packaging; the materials and processes used in the production of the product have green certification; or if you have begun to calculate the carbon emissions that are caused by the product from the factory through the transport and distribution process to the consumer; and so on.

On the other hand, for some small and medium-sized businesses using Shopify, more than the income they generate might be needed to support their products' long-term viability fully. In some ways, this is unjust to small and medium-sized businesses, and there may be a lot of pushback and protest. Additionally, this will convince other individuals who still need to join Shopify to do so.

## **Recommendation**

The post pandemic behavior of the consumer and the growth of new competitors had a profoundly negative effect on the profitability of Shopify. Therefore, in order to retain as many users as possible and possibly attract new users, the combination of the alternatives is the optimal decision. As stated previously, building long-term relationships with customers through the creation of a customer community will allow Shopify to retain the users of the ecommerce platform. The presence of this community gives Shopify a way to connect to the customer at a deeper and meaningful level. Furthermore, through this community the consumers can convey their wants and needs and ask questions within the community and it is those conversations that happen within the community that Shopify can use as a leverage to better their product and thus retain the users by improving any stated problems. Due to Shopify's competitors providing the service for lower price along with where they do not charge transaction fee, Shopify's implementation of providing free trial for longer time to small to medium-sized businesses (SMBs) along with free logistic service will give the users a better experience and enough time to explore all the features and get used to the platform making it less likely to switch to another platform. Another recommendation is to implement changes that take them towards being recognized as a sustainable company that prioritize sustainability commitments through their distribution methods and their advocacy for the merchants to also be environmentally conscious. Also being transparent to their customers regarding the specific steps they are taking and steps they hope to take in the future to get to a point where they are a sustainable company will be an attractive asset in retaining the current users and attracting new ones. The focus for Shopify currently is to continuously grow their company and lose as little market share in e-commerce as possible therefore implementing these alternatives could help them achieve it.

## **Conclusion**

The biggest threat of Shopify is the presence of competitors who are offering similar services for more affordable prices and providing features that Shopify has yet to implement. Also, the presence of companies like Instagram having e-commerce capability in which the service is provided for a fraction of the price that Shopify is offering leads to increased buyers power. The alternative to form a community for the customer to discuss any issues they may be having with the platform will allow the company to fix those issues and cater the platform to the users based on their needs. This will separate Shopify from its competitor and make the company appeal to new customers as this will convey to the customer that the company cares about their feedback and is willing to make changes and cater to the platform to help their businesses grow. Also, in terms of customer service as well as many of the features within the platform, Shopify dominates other companies therefore giving users a longer period to use the free trial and explore all the features will work in favor of Shopify as this will expose the users to the wide availability of the features. This will act as evidence for why Shopify is priced at the point they are. The alternative to moving the company toward being recognized as a sustainable company will also be a competitive advantage thus attracting more customers. As stated previously Shopify has the largest market share in e-commerce and has established themselves as the standard for providing a high-quality product therefore the addition of this factor or at least highlighting the steps they are taking to become a sustainable company will be a major advantage over the other companies. Despite the higher price compared to its competitors, when the users view Shopify as a company that truly cares about the user's businesses and are willing to use their resources to make changes that make it easier for the users to grow their company, the presence of competitors who provide the service for cheaper price will be less effective in users choosing another platform over Shopify. Furthermore, establishing Shopify as a company that is working toward becoming

sustainable in bringing in new users. Shopify has the largest market share in the ecommerce businesses, but to prevent its dilution, they can work toward implementing the presented alternatives.

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Singleton, C., About the authorChris Singleton View on Facebook View on Linkedin View on Youtube View on Twitter <http://Contact%20us> Chris Singleton is the Founder of Style Factory.After graduating from Trinity College Dublin in 1999, author, A. the, Chris Singleton View on Facebook View on Linkedin View on Youtube View on Twitter <http://Contact%20us>, View on Facebook View on Linkedin View on Youtube View on Twitter <http://Contact%20us>, Chris Singleton is the Founder of Style Factory.After graduating from Trinity College Dublin in 1999, \*, N., Gugliottasays:, E., 14, C. S. J., Singletonsays:, C., 1, C. S. A., Esthersays: 17, C. S. M., Cherylays: 26, C. S. N., Karensays: 2, C. S. N., Robinsonsays:, J., Cuisays:, P., ... Macdonaldsays:, M. (2022, October 6). *Shopify Review (2022) - all the pros and cons - style factory*. Style Factory. Retrieved October 18, 2022, from <https://www.stylefactoryproductions.com/blog/shopify-review>

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## **Appendix 1: Group Case Synopsis**

### **Overview**

The Canadian e-commerce company Shopify was developed and launched in 2006, (Merritt, 2022). Tobias Lütke, Daniel Weinand, and Scott Lake launched a website called Snowdevil in

2004 to start selling snowboarding gear online however due to the existing ecommerce platforms for online stores being only adequate in its performance, Tobias Lütke decided to create his own e-commerce platform. The platform hosting Snowdevil was released as Shopify. “Shopify is a software-as-a-service (SaaS) platform that lets you start, grow, and manage an online store” (Shopify market share and usage statistics in 2022, 2022). Shopify uses a subscription model in which the users subscribe to one of the three available plans in which the clients receive all the features that are required to launch an ecommerce store (Shopify market share and usage statistics in 2022, 2022). In 2009, the application programming interface (API) was created enabling Shopify-specific applications to be sold on their App Store. The next year, they added the Shopify app to the Apple App store which allowed business owners to “view and manage their Shopify stores” (Merritt, 2022). The company implemented Shopify payments in 2013, which eliminated the need for third party payment gateways, enabling retailers to avoid them (Merritt, 2022). “In 2017, they went brick and mortar, producing iPads with a point-of-sale system that directly accepts debit and credit card payments” (Shopify market share and usage statistics in 2022, 2022). Physical commercial establishments continue to use this iPad POS on a daily basis, especially the smaller ones without extensive POS systems. Globally, Shopify has a 20% market share among ecommerce websites (Brandl & Wibowo, 2022).

### **Difficulty Managing in the Marketplace**

Nowadays, online shopping has become a very prominent part of our daily lives. To date, Shopify powers around 3.8 million stores online (Singleton 2022). It has allowed users to open their own businesses in hopes of generating a profit all from the comfort of their own home. Although Shopify is supposed to aid with this, others beg to differ as it is difficult to manage a marketplace on this platform. The main issue is that many new users have found that they experience a lot of pressure and workload when trying to manage their businesses both in the

backend and the frontend. Store owners who are new to online platforms have found that they have difficulty managing the backend of their store, for instance; inventory status, shipping, order management, etc. Instead of trying to develop an interface to make their lives easier, these users rely on external applications to try and handle different aspects of their business. In addition to this, some of these apps do not offer all the features and are not entirely safe, which puts the user and the customers at risk. For example, GST Invoice India is an app used to create and manage invoices, however it does not manage inventory and take a while to process orders. For local store owners that may have more than one business might find it difficult to handle them all at once considering they might not have a big team to help them. On the front end, it is also difficult for owners to market their businesses. When setting up user interface, there are not many options for owners to get creative with their businesses. Additionally, Shopify has issues with zooming in on content, content layout, and images in general. They did recently install a feature called OS 2.0 where it allows users to customize their pages. However, to access this option, an external application is required as well as going to a different page each time rather than editing the page on the spot. Although it is something that can be innate, it is a bit of an odd flow of work. Another aspect that users have had issues with is forms. Instead of being able to drag and drop forms where necessary (like WIX or Squarespace), users would need to purchase external applications to manage these forms or resort to solve that issue by code.

### **Post Pandemic Issues**

When the pandemic began, businesses worldwide were forced to move their operations online in response to swiftly imposed restrictions. As a result, Shopify saw their yearly revenue soar to a new high of one billion dollars. (CBC/Radio Canada, 2021) Among other tactics, Shopify quickly and dramatically expanded its workforce to meet this new level of demand, and soon settled into a new era of record setting profits. However, over the next few years, global COVID

restrictions relaxed, and more businesses shifted focus or fully returned to in-person operations, leaving Shopify with a plummeting stock price. This rapid rise and fall has proven to be one of the most significant problems that Shopify has faced thus far. In fact, Shopify was forced to lay off 10% of its workforce because of how much this pandemic growth had reversed. (Lord, 2022)

One problem is that Shopify did not quickly find a suitable business model after the pandemic. It is difficult to detach from the impact and growth brought by the pandemic. The pandemic has activated demand for offline merchants to set up stores online. Shopify, which provides standalone sites for merchants, has seen quarterly revenue growth of upwards of 100% and its stock price rise more than fourfold between early 2020 and late 2021 (Scott, 2022). Shopify has recently hit a bottleneck in capital markets and company performance. In the capital markets, Shopify shares have fallen more than 80% in 2022 and have completely fallen to pre-pandemic levels (Down 80%, Is Shopify Stock Worth the Risk? | Nasdaq, 2022). Due to several external environmental reasons, such as the United States Federal Reserve raising the interest rates as well as various political changes. Recently, we have also seen other ecommerce giants like Amazon's stock prices drop 25%-40% (Palmer, 2022). However, Shopify's drop has been more severe than most competitors. A significant reason for the poor performance is because the demand level of the pandemic disappeared, consumers reduced consumer spending, clothing accessories and other non-immediate product demand has been greatly impacted, and Shopify on the small and medium-sized merchants are relatively weak resistance to risk and strike capacity. The result is that it affects Shopify's chances of acquiring new customers and new merchants.

## **Appendix 2: SWOT Matrix**

