



shopify

Making Commerce Better For Everyone

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DSO 556: Business Models for Digital Platforms

USC Marshall

School of Business

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Company Overview



“Make Commerce Better for Everyone”

Shopify is a leading e-commerce and subscription-based software company that gives any seller the tools they need to set up an online store and distribute their products.

The current platform acts as a “single central command” giving sellers access to scale their e-commerce infrastructure and establish an online presence.

As of 2021, there are **2.3 million** active websites that have integrated Shopify, making Shopify the **third-largest** online retailer in the United States.

The total platform sales around the world are estimated to be **\$200 billion** to date.

Competitive Landscape

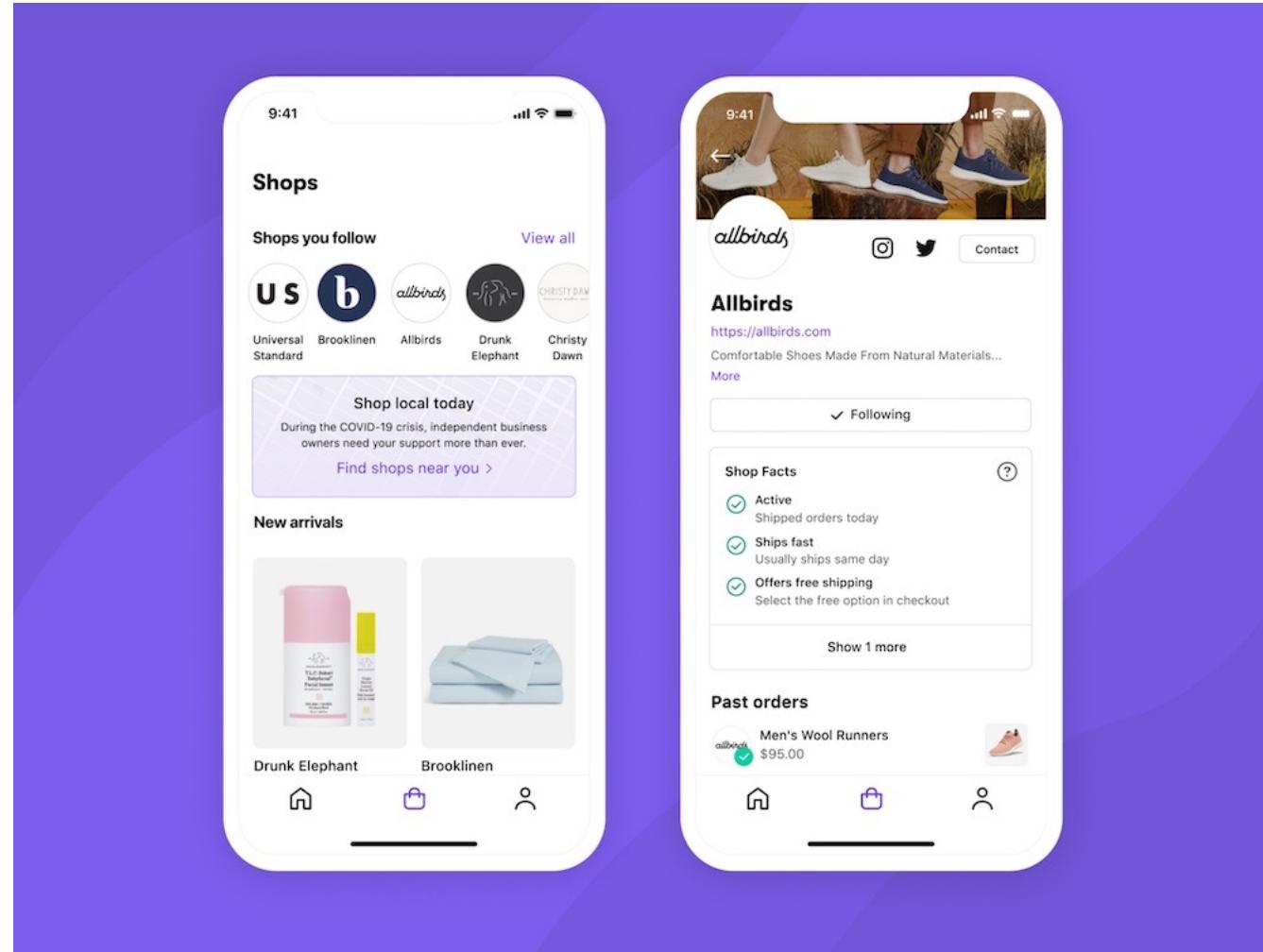
	 shopify	 Square	 BIGCOMMERCE	 SQUARESPACE	 Magento®
Year Founded	2006	2009	2009	2004	2008
HQ Location	Ottawa, Canada	San Francisco, California	Austin, Texas	New York City, New York	Culver City, California
Countries	175	130	120	46	Global
Business	E-Commerce	Financial Services, Digital Payments	E-Commerce	Internet	E-Commerce
Employees	7,000+	5,400+	600	1,100+	N/A
Estimated Revenue	\$2.93 billion	\$9.49 billion	\$112.1 Million	\$621.1 Million	Purchased by Adobe \$1.68 billion (2018)

Shop App Overview

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In May of 2020, Shopify released the Shop app, a digital shopping assistant that focuses on improving the overall shopping experience for the customer. Customers can track orders, check out faster, and shop within the app.

Shopify's goal is to help sellers on the platform gain larger volumes of customers by improving the shopping experience. The Shop app can make product recommendations to customers but only from stores that they have previously purchased from. This avoids any spammed advertisements while pushing customers to return to the stores. The app includes other features for finding local businesses by using location services and offers customers options for local pickup and delivery.



Current VISOR Framework



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Value Proposition

Create an end-to-end platform for businesses to sell on



Interface

User-friendly interface, Frictionless merchant integration



Service Platforms

Shopify "Merchant" Solutions



Organizing Model

Partner Relationships with app developers and theme designers



Revenue and Rewards

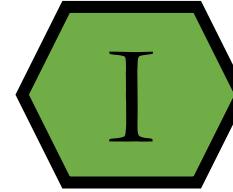
Monthly subscribers, Transaction fees, Merchant solutions

Value Proposition and Interface



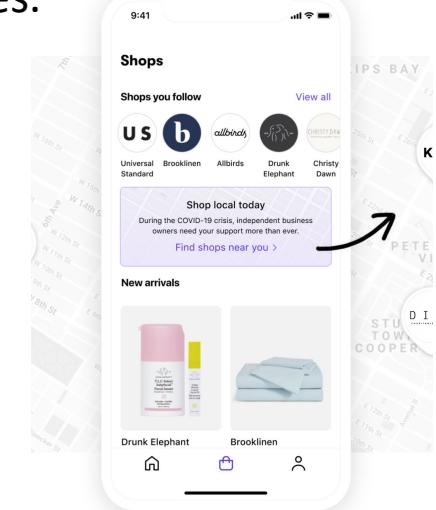
Value Proposition

- **For Sellers:** The value proposition that Shopify has built out is innovative and proven to be attractive to sellers.
 - Shopify has built an end-to-end platform for sellers that provides an e-commerce infrastructure for merchants to sell their products.
- **For Third Party App:** Third party app developers are incentivized to use Shopify in order to collect payments through general usage of merchant consumers.
- **For Shopify:** Driving interactions between buyers and sellers to blossom into one of the largest revenue shares within the ecommerce industry.



Interface

- **High Demand:** Merchants have high interest to develop their e-commerce space, allowing for a general overview interface with nothing extraordinary to act as a back-end application.
- **User Friendly:** However, Shopify has a positive user experience that can streamline merchants to starting and developing their online businesses.
- **Shop App:** Shopify has a larger incentive to create a better flowing UI and UX, knowing that the goal of the Shop app is to create a one-stop experience for customers.



Service Platform and Organizing Model



Service Platform

- **Services:** The combination of security, scalability, reliability, performance and deployment are attributes that feed the inclusivity of the platform while also promoting an exclusivity to other e-commerce platforms.
- **Multiple Devices:** Shopify allows for multiple devices to access the platform and remain connected to their storefront from anywhere at anytime.
- **Platform additions:** Shopify has “merchant solutions” that handles Shopify shipping, capital, POS, and a mobile application that allows merchants to sell their products in a physical or retail setting.



Organizing Model

- **Partner relationships:** In order to reach users across all devices, the organizing model that Shopify employs includes relationships with:
 - App Developers, theme designers and major brands.
 - This includes digital and service professionals, marketers, photographers, and affiliates
 - Big Brands and Merchants
 - *Unilever, Kylie Cosmetics, Allbirds, and MVMT.* Which partake in one of the key drivers for Shopify's revenue



Revenue and Rewards



Revenue and Rewards

Shopify has several diversified revenue streams including **monthly subscribers, transaction fees, and merchant solutions**. There are **three main monthly prices** for the subscription levels of Basic Shopify, Shopify, and advanced Shopify for the stores to join the ecosystem. Additionally, Shopify receives a small percentage of every transaction according to the subscription level and promote their transaction-free internal payment processing system: Shopify Payments. While most businesses fall in one of these three categories for needs, there is also “merchant solutions” that offers **extra services and flexible assistance** to solve common business issues. These revenue streams have generated a gross profit of about **620 million**.

	Basic Shopify All the basics for starting a new business	Shopify Everything you need for a growing business	Advanced Shopify Advanced features for scaling your business
Monthly price	USD \$ 29 /mo	USD \$ 79 /mo	USD \$ 299 /mo

SWOT Analysis

STRENGTHS

Vertical Integration: Shopify has created end-to-end products for both sellers and customers. This puts them in the unique position to become a one-stop shop on both sides of their platform because they can satisfy all needs.

Existing User Base: Shopify has established themselves as the name brand e-commerce platform. With a solid foundation of sellers, they were able to develop the Shop app and attract an immediate customer base. Now they have a platform with strong user bases that pushes interactions on both sides.



WEAKNESSES

Cost: Shopify is continually getting more expensive for their sellers. For many new companies, costs of this size are too great for the services provided. Shopify offers 3 main subscription plans and take transaction fees on purchases. Specific tools like discount codes are also available but at an additional monthly cost.



Technical Setup: The initial setup of a seller's Shopify account can be confusing if the seller lacks technical knowledge. The setup is very thorough and requires knowledge of Shopify terms like collections instead of categories.



OPPORTUNITY

Growth in Ecommerce: Shop has opened Shopify up to a new market and enables them to capture the growing potential of e-commerce. The release was timely in that COVID has pushed consumers away from traditional brick-and-mortar shopping and towards digital spending.

Platform Evolution: Shopify can push innovations and tools that will help both sides of their users through the Shop app. Platform based businesses have proven to be a very successful business model that can create positive network effects across their entire portfolio.



THREATS

Competitors: The emergence of new competitors within the ecommerce platform industry such as Wix, Squarespace, and Square Online that present similar products and tools to Shopify are an immediate threat to the business. E-commerce giants like Amazon and Alibaba are other competitors because sellers can reach a very large audience with little promotion needed.

Security and Data Privacy: As the technological world grows, so does the concerns with user data and ownership. Naturally, Shopify has had to adapt at a cost to new regulations that restrict how data is stored and processed.

Shopify Platform Expansion Proposal

Shopify is in the position to leverage the coexisting network of buyers and sellers to expand upon their current marketplace, creating positive network effects through the integration of the entire seller network.

Our proposed Shopify VISOR model focuses on upgrading the existing Shop App to remove friction, improve recommendations, and invite merchants to an open marketplace that becomes a one-stop shop to meet all the consumer purchasing needs.



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Network Effects

The expansion will prove beneficial to all three parties by converting the high number of interactions into completed transactions.

Platform Expansion

Utilizing the known customer data, Shopify can provide quality recommendations from stores across their network.

Opportunity

Exposing their customer base on the Shop app to other sellers in their network will provide customers with a larger selection of products and services.

Threat

Large competitors in both the commerce platform and e-commerce marketplace are proving as viable alternatives for buyers and sellers to interact.

Shopify Ecosystem



Purposed VISOR Framework

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Value Proposition

Captures network effects from buyers to deliver an ultimate Shopify experience

Interface

One-stop shop for buyers

Service Platforms

Developing APIs that leverage machine learning/AI to optimize recommendations

Organizing Model

Further relationships with merchants

Revenue and Rewards

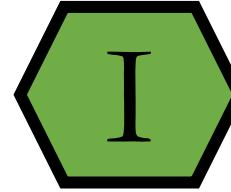
Incentivize customers to complete transactions within the marketplace

Value Proposition and Interface



Value Proposition

- **For Buyers:** Creating a centralized marketplace, where buyers have access to a large catalog of products and storefronts to meet their consumer needs. This new Shop App would offer a streamlined experience for faster purchasing and navigation flow.
- **For Merchants:** Large existing network of sellers attracts many buyers to the platform, offering new customer acquisition opportunities to drive new revenue streams. Also, Merchants receive better insights into the competitive landscape to develop stronger brand positional awareness.
- **For Third Party Developers:** Exposure to a new user base (buyers) that could become potential consumers and creating a new source of income.



Interface

- **User Experience:** Seamless integration with existing Shop App and current core functionalities: order tracking and payment processing. New proposal removes friction from accessing siloed, external websites to create an all-in-one experience.
- **Reviews:** New rating and review system gives seller direct feedback and informs them on customer purchasing decisions.
- **Browsing Capability:** Expanded catalog creates a necessity to develop an efficient browsing tab that focuses on consumer preferences in products.

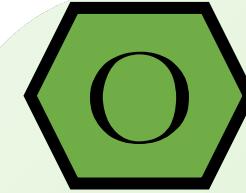


Service Platform and Organizing Model



Service Platform

- **Third Party Potential:** By opening development on the app through APIs, there is an opportunity for new third-party partners that offer tools that enhance the experience within the Shop App.
- **Improved Recommendations:** The large collection of buyers and their product preferences creates large data stores to design a recommendation system that more precisely fits customer profiles. Investments into data infrastructure creates advanced analytic opportunities for stronger consumer insights.
Improved Value Proposition: Deployment of AI and machine learning throughout the application and opening to outside innovation increases the value proposition for the Shop app.



Organizing Model

- **Relationships:** In order to reach users across all devices, Shopify can develop deeper relationships with its sellers in order to create an enterprise set of partners in the new marketplace.
- **Processes:** The creation of brand relationships with sellers allows Shopify to streamline and improve supply chain efficiencies. A unified operation would provide the Shop app with the most efficient and effective logistic process in delivering products and services to consumers.

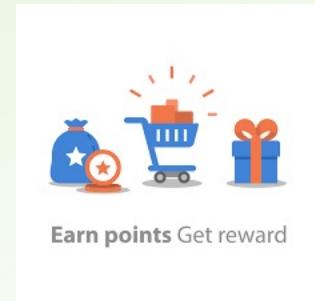
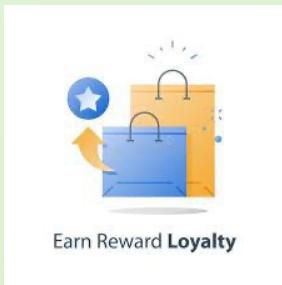


Revenue and Rewards

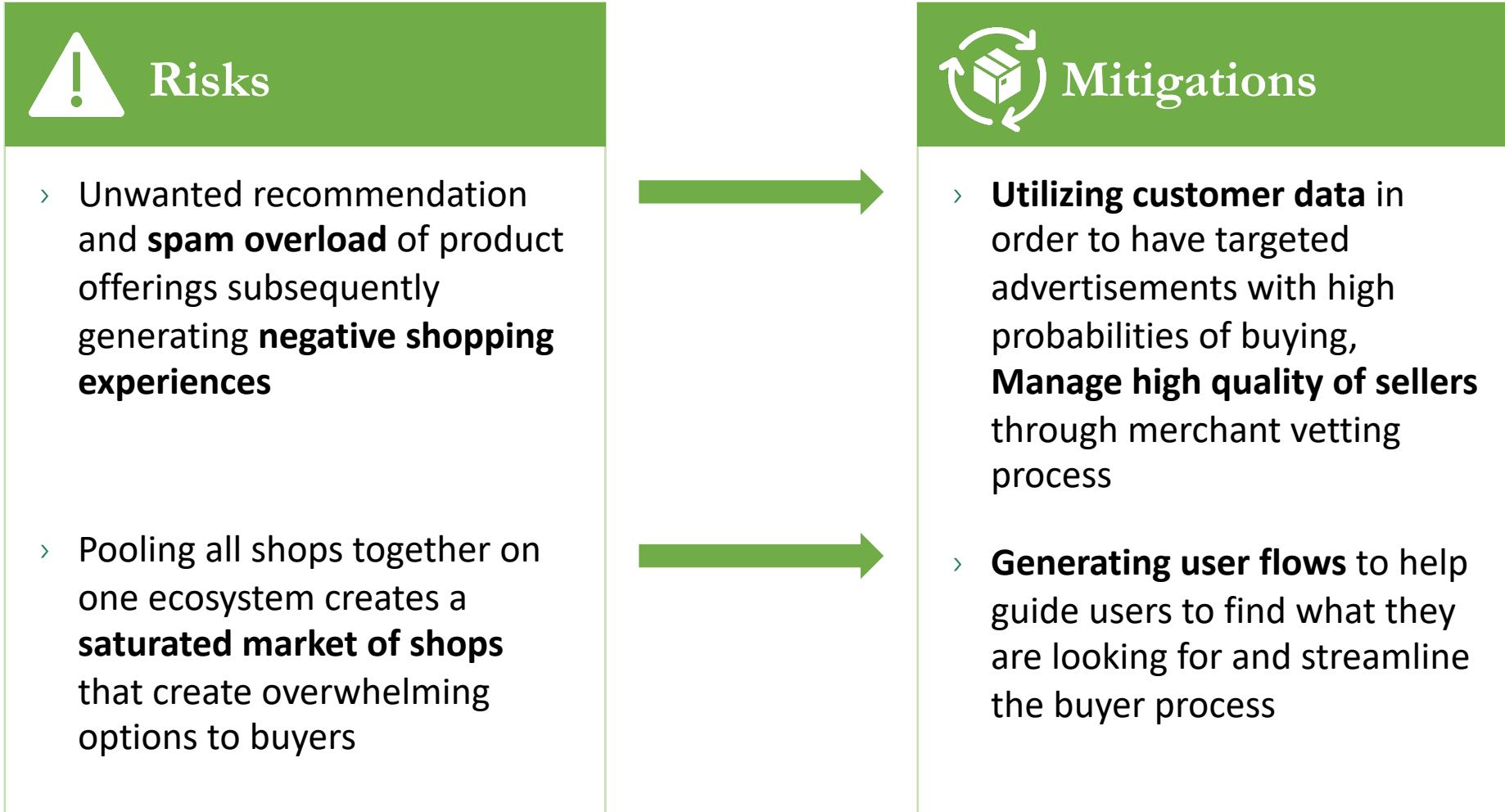


Revenue and Rewards

The Shop app **expansion** will drive an increase in **interactions between buyers and new stores** creating more transactions within the Shopify ecosystem. Implementation of a similar transaction fee model, which has proven to be successful, will **strengthen the existing revenue model**. With the creation of a marketplace, Shopify can implement a **rewards and loyalty** system to encourage customers to increase spending through incentives. The rewards system, similar to points, would maintain the existing Shopify culture by promoting loyalty and interest between the marketplace buyers and the seller network. This system will create more activity and in turn attract a larger volume of sellers to want to join the **rich marketplace**. Additionally, this new ecosystem can offer **timely unique deals** by leveraging the large data stores of the purchasing habits of consumers.



Risks and Mitigations for Buyers



Risks and Mitigations for Sellers

Risks	Mitigations
<ul style="list-style-type: none"><li data-bbox="386 505 1052 779">> Shopify keeping up with growing user base of shops and providing the technology infrastructure necessary without lagging or friction<li data-bbox="386 937 1052 1153">> Allowing smaller shops to still thrive and flourish within the ecosystem even when the app has larger corporate names	 <ul style="list-style-type: none"><li data-bbox="1500 505 2165 721">> Putting more revenue towards web app developers in order to sustain current userbase and system flow<li data-bbox="1500 879 2165 1211">> Create opportunities and marketing for small businesses and shops to target local audiences that are buying the same merchandise from larger businesses

Future Goals



Designing Key Performance Indicators

Growth of platform and user bases causes need for designing tracking metrics. KPIs can inform broader strategies for international penetration.



Shaping Shopify Culture

An open marketplace provides an opportunity to improve the Shopify culture by introducing a new element of discovery on both sides of the platform.



Improving Marketplace Interactions

Exposing Shop app buyers to a larger pool of sellers increases the number of new interactions between both parties.



Conversion Rates

Reducing churn rates for both buyers and sellers by strengthening the recommendation system conversion rate.



Maintaining Revenue Model Success

Keeping gross merchandise volume (GMV) and monthly recurring revenues (MRR) high for the SaaS and subscription-based business.

Impact

This proposed Shopify VISOR model focuses on **a digital transformation that redesigns the Shopify app** to become the **ultimate one-stop** shopping experience for buyers.

Our model focuses on **removing friction** by integrating storefronts directly into the app, **improving recommendations** by leveraging centralized consumer preferences and **generating network effects** that attracts more sellers to Shopify's core product.

These innovations will build a stronger end-to-end platform marketplace that is focused on making commerce better for everyone.



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