



MEMBER EXCLUSIVE, ONLINE LENDERS

## How Shopify is creating an 'embedded finance ecosystem' with Shopify Capital

Shopify merchants benefit from a quick, simple application and approval process.

Shopify is slowly building an arsenal of finance solutions to better serve its users.

SHEHZIL ZAHID | JUNE 10, 2021






When the pandemic forced Dale Jacobs to close the doors on his store, Prairie Supply Co., in Dauphin, Canada, he knew the best solution for the business to weather COVID-19 was to double down on its online store to reach more customers across the Great White North.

In order to do that, Jacobs needed capital and he was in luck. Prairie Supply Co. had been a merchant on the e-commerce platform Shopify for close to 10 years. When the platform offered to finance his business through its lending platform Shopify Capital, Jacobs said yes.

With Shopify Capital, merchants have access to fast funding based on a track record of sales. As more competitors wade into lending, Shopify is creating an embedded finance ecosystem to better serve its merchants.

Prairie Supply Co. received \$200,000 across three rounds of funding from Shopify Capital in less than a year, which allowed Jacobs to build inventory, increase online sales with a new hire and market the business on social media.

"The traditional lender seems like they are placing a bet against your business," says Jacobs. "Shopify Capital looks at our track record in regards to daily, quarterly, and yearly sales and understands that most modern small businesses will not be showing a huge profit on the books at the end of the year."

Shopify launched Shopify Capital in 2016, giving 1.7 million Shopify merchants access to its financing programs, loans and merchant cash advance. Merchants can apply for lump-sum loans in return for a fixed borrowing cost and pay back the loan with a percentage of their daily sales over a period of 12 months. Cash advance works similarly — there's no deadline to repay Shopify and after remitting over 25 percent of the advance, merchants can repay the rest in a single lump sum.

Since its launch, the lending platform has lent out \$2 billion in funding to entrepreneurs and small businesses. In Q4 2020, Shopify merchants received \$226.9 million in loans and merchant cash advances — a 96 percent increase from Q4 2019 when merchants received \$115.9 million in financing. Shopify Capital also increased the maximum amount it's able to fund from \$1 million to \$2 million.

Borrowers like Jacobs benefit from Shopify Capital's machine-learning and AI models, which help them leapfrog traditional approval processes — meetings, credit score reviews, lengthy applications and business plan reviews. Instead, ML and AI models make funding decisions based on sales, which allow borrowers to access and receive funding with a few clicks on their Shopify admin.

Unlike some traditional funding options, borrowers can use Shopify Capital funding for a host of reasons, including hiring and paying their staff, marketing their business and investing in inventory.

Tenita L. Strand, founder of leather goods store Status Co. Leather Studio in Daleville, Alabama, qualified for \$28,000 in Paycheck Protection Program loans, but PPP can only be used for payroll and associated expenses. Strand kept her store afloat with the help of a \$17,000 loan — approved and received in three to five business days — from Shopify Capital that she used to develop more product styles, increase in-house inventory and cover shipping costs among

other things.

Shopify Capital is only one cog in the expanding Shopify machine. Other solutions include its buy now, pay later offering Shop Pay Installments and Shopify Balance, a money management tool for merchants that will launch later this year. Tui Allen, senior product leader at Shopify, says that its array of products is an example of how Shopify is creating an 'embedded finance ecosystem' within its platform — but it's not the only entity to do so.

Last month, eBay launched Capital for eBay Business Sellers (CEBS) in partnership with YouLend, an embedded finance platform. SMBs on eBay's platform in the UK can now apply for loans between £500 (\$641.18) to £1 million (\$1.3 million). With CEBS, eBay joins Shopify and Amazon's Amazon Lending in pursuing big financing solutions.

This is no coincidence. Allen says that an increasing number of e-commerce platforms recognize that integrated financial solutions are not just a want but a need.

"End users are understanding the importance of having simple, embedded and direct financial services that help them save time and make smarter decisions," says Allen. "This is also allowing for more diversified offerings that connect better to the experiences of [the] end user."

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