09 / OPPORTUNITY TO CREATE

Shopify

The business behind Snowdevil

When does a tool built for your own business become a business of its own?



Shopify’s Toronto office, 2017. Photograph: Raysonho / Open Grid Scheduler / Grid Engine.
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A snowboard store’s custom software creates a second opportunity. The founders must decide whether to sell products, build custom tools or serve many merchants through a platform.

Tobias Lütke and the founding team | 2005-2006 • reconstructed founding decision

35-45 minutes to prepare / 75 minutes to discuss
Original public-source teaching case • First member edition • 1 November 2026

PRINCIPLED BUSINESS IN PRACTICE

Introduction

About Principled Business

Principled Business (PB) is a nonprofit organization that brings together business leaders to advance capitalism through education, relationships and action. It helps founders, executives and investors understand free enterprise, apply its principles in their organizations, and explain the contribution business makes to people's lives.

The PB manifesto grounds capitalism in individual agency, private ownership and voluntary production and trade. These commitments take practical form in everyday business decisions.

Opportunity to create

PB emphasizes the freedom to pursue ideas and build enterprises. Turning that freedom into a useful business requires judgment about demand, resources and the consequences of failure.

Shopify illustrates how an entrepreneur's own operating problem can reveal an opportunity for others. The case asks whether that insight is sufficient to justify a new business. Students must connect freedom to create with evidence of demand, a realistic service promise and enough capital to learn.

PB presents this case to make the principle usable in a real business decision. Your recommendation should connect the principle to a workable policy, account for the people affected, and identify evidence that could change your mind.

What you will learn

01 Distinguish solving your own problem from validating a market.

02 Calculate contribution, break-even merchant count and runway.

03 Design a narrow product test with a clear decision to continue, change or stop.

> **Apply it to your own business**
> What tool or workaround has your organization built for itself? What would have to be true for other people to buy it and use it without your constant help?

Source: About Principled Business; Capitalists for Capitalism Manifesto, Section 2: Opportunity to Create.

NOTES FOR STUDENTS AND TEACHERS

Using this case study

This packet includes the case, exhibits, worksheet, sources, answers and teaching notes. Allow 35-45 minutes to prepare and 75 minutes for discussion. Have a calculator or spreadsheet available.

Pages	What to use and when
4-8	Decision, evidence, exercise and alternatives. Read before discussion.
9	Decision worksheet. Complete before reading the answers.
10	Sources and reading notes. Check the evidence and its limits.
11-12	Worked answers, outcome and teaching plan. Read after deciding.

For students

Read once to identify the decision, then work through the exhibits. Separate historical facts from the invented classroom exercise. Use the case's decision boundary; write down assumptions when evidence is missing. Complete the calculation and worksheet on page 9. Be ready to defend your recommendation and the strongest objection to it.

For individual study, decide before turning to pages 11-12. Compare your reasoning with the worked analysis and write a short reflection on what you would change. Choose one action to try in your own organization.

For teachers and discussion leaders

Read the full packet and timed plan before teaching. Assign pages 1-10 first and reveal the final two pages after students commit to a choice. Record the alternatives, evidence and disagreements on the board.

Challenge the assumption that a working internal tool is already a scalable product. Ask which new responsibilities arise when another merchant depends on the service.

> **How to assess the work**
> Look for a clear choice, accurate analysis, stated assumptions, attention to affected people, a fair objection, and an implementation plan with an owner and review point. Assess reasoning rather than agreement with the historical decision.

2005-2006 • FROM INTERNAL TOOL TO PRODUCT

The decision

In 2004, Tobias Lütke and his cofounders began an online snowboard business. Dissatisfied with available store software, they built their own. Lütke later described a decision to redirect the business toward tools for other merchants. [S1-S2]

Place yourself before that launch. The team has evidence that its software can support its own store. It has much less evidence about how many other merchants would pay, what support they would need or whether one product could serve their different workflows. A useful internal solution and a viable software business are separate achievements.

Three ways to use the capability

The founders could continue selling snowboards, sell custom implementations to a few merchants, or invest in a reusable hosted platform. The alternatives differ in revenue timing, concentration of risk and the amount of product development required. A platform promises broader reach but creates ongoing obligations to merchants who depend on it.

Choose the next business and a bounded plan for testing it. Specify the first customer group, the service promise and the evidence needed before committing further cash. The case does not invent private founder discussions or actual early financial statements.

> **Decision boundary**
> The 2006 launch belongs in the debrief. At the decision point, the relevant question is whether the opportunity warrants a disciplined commitment of scarce time and capital.

THE BUSINESS LOGIC

A product is more than code

The founder is a useful first customer

Building for yourself reveals detailed frustrations and makes fast iteration possible. It can also hide work that only the founder knows how to do. A prospective merchant may need onboarding, documentation, payment integration and recovery from errors that the original team handled informally.

Repeatability changes the economics

Custom work can produce cash sooner but tie revenue to labor. A common platform can spread development cost across customers, provided their needs are similar enough. Too many special requests can quietly turn a subscription business back into consulting without consulting prices.

Dependence creates responsibility

A merchant entrusts part of its livelihood to the platform. Availability, data handling, billing and the ability to leave become part of the offer. An early test should narrow the feature set while maintaining a credible service promise for the customers admitted.

The strongest evidence is not that people admire the idea. It is that suitable merchants can launch, complete real transactions, obtain help and keep paying. A free trial can reveal usability, but it cannot by itself establish willingness to pay at a sustainable price.

> **A useful boundary**
> Define the first merchant the product will serve well, then name the requests the team will defer. Focus is valuable when it improves learning and delivery, not when it merely makes the plan look smaller.

EXHIBIT 1 • HISTORICAL EVIDENCE AND OPEN QUESTIONS

What the origin establishes

Evidence [S1-S2]	What it supports	What it does not prove
The founders operated a snowboard store.	Direct experience of an online merchant’s problem.	That all merchants share the same problem.
They built their own software.	A working response to their own requirements.	That strangers can adopt it without intensive help.
They shifted toward software.	A strategic choice about the opportunity.	That the choice was risk-free or inevitable.

Interview with a prospective merchant

Write five questions about the merchant’s existing process, costs and obstacles. Ask for a recent example rather than a general opinion. Identify what would make switching worthwhile and what data or continuity concerns would prevent it.

A first paid test

Specify a small group of merchants with comparable requirements. Define the promised service, the fee, the support limit and the observation period. Track time to launch, completed orders, support effort, renewals and reasons for leaving. Record founder labor even if no salary is yet paid.

> **Missing evidence**
> The historical origin supplies a plausible problem. Your proposed test must supply evidence about demand, repeatability and the economics of serving someone other than the founders.

EXHIBIT 2 • INVENTED CLASSROOM EXERCISE

Can the team afford to learn?

All amounts are hypothetical U.S. dollars, not Shopify's actual early finances. Starting cash is $300,000. Building a first hosted product costs $90,000 upfront. Thereafter fixed cash operating cost is $30,000 per month. Each paying merchant generates $30 monthly revenue and $10 monthly variable service cost.

Scenario	Paying merchants	Assumption
A	100	Count remains constant.
B	500	Count remains constant.
C	1,500	Count remains constant.

Assume customers pay on time. Ignore taxes, financing and any additional acquisition spending in the base scenarios. Initial onboarding is included in the upfront build cost. Calculate runway from the $210,000 remaining after the build, using steady monthly cash flow.

01 Calculate monthly revenue, contribution and cash burn for each scenario.

02 Calculate runway and the merchant count needed for operating break-even.

03 A campaign adds 400 merchants immediately at $60 acquisition cost each, bringing A to B. What cash remains, and what is the new runway?

04 Which omitted factor would most likely make these runway estimates optimistic?

> **A model of cash, not proof of demand**
> The merchant counts are scenarios. Treating the break-even count as a sales forecast would replace the question with the desired answer.

ALTERNATIVES • IMPLEMENTATION • ASSIGNMENT

Choose the business to build

Path	Potential advantage	Main risk
Continue retail	Use the tool to improve a business the team already understands.	The larger software opportunity may go untested.
Custom implementations	Earn from a small number of specific merchant problems.	Labor-intensive work can delay a reusable product.
Hosted platform	Spread a common capability across many merchants.	Demand, support cost and runway may not support the ambition.

Your assignment

01 Choose a path for the next six months and define the customer.

02 Set a budget and a cash reserve that triggers review before funds run out.

03 Specify three observations that would justify a larger commitment.

04 Describe what you would change if merchants sign up but require costly custom work.

Write a one-page investment recommendation. Include the strongest reason to stay in retail or consulting even if you prefer a platform. State which obligations must be fulfilled if the team stops the experiment or changes direction.

> **An entrepreneur’s responsibility**
> Opportunity includes the freedom to try. A good plan also accounts for customers, employees and partners who may begin relying on the attempt.

WORKSHEET • COMPLETE BEFORE READING THE TEACHING NOTES

Your decision

Write as the decision-maker. Use the historical evidence and the classroom model for their stated purposes. A recommendation needs a boundary, an owner and a test.

My recommendation and the principle it puts into practice

The calculation or evidence that matters most; its main limitation

Who bears the risk, and how their choice or voice is protected

The strongest objection and my response

First action, accountable owner, review date and stop/change trigger

EVIDENCE • METHOD • LIMITS

Sources and reading notes

A reconstructed founding decision, using the founder’s later account of the transition from a snowboard store to software. The financial model, customer counts and alternative strategies are classroom assumptions.

S1 Tobias Lütke, 2015 founder letter, SEC exhibit

First-person retrospective: the 2004 store, custom software and 2006 Shopify launch.

Open source document →

S2 Shopify, Earliest Businesses

Company historical account of Snowdevil and other early entrepreneurial beginnings.

Open source document →

S3 Principled Business, Capitalists for Capitalism Manifesto

Opportunity to create provides the case’s interpretive framework.

Open source document →

How to read the evidence

The founder’s account is retrospective and benefits from knowing the outcome. Use it to establish the origin and transition, not as proof that the market was obvious in 2005. Later platform scale is excluded from the initial decision.

All quantities in the classroom exercise are invented unless explicitly identified as historical. The models omit factors deliberately for discussion; they are not company forecasts. Photographs are documentary context, with dates and licenses on the cover.

Original Principled Business teaching material. No company approval or affiliation with Harvard Business School is implied. No private interviews or unpublished company records were used. Public sources checked 1 November 2026.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Worked analysis

Contribution and runway

Merchants	Revenue / month	Cash burn / month	Runway
100	$3,000	$28,000	7.5 months
500	$15,000	$20,000	10.5 months
1,500	$45,000	$0	Operating break-even

Contribution is $20 per merchant per month: $2,000, $10,000 and $30,000 respectively. Break-even requires $30,000 ÷ $20 = 1,500 paying merchants. At zero burn the model has no depletion date, but it does not fund additional investment or protect against churn.

Acquisition spending changes the cash position

Adding 400 merchants costs $24,000. Cash falls from $210,000 to $186,000. At the B burn rate, runway becomes $186,000 ÷ $20,000 = 9.3 months. This is longer than A’s 7.5 months but shorter than the cost-free acquisition assumption in B.

The decision still needs evidence

A bounded platform test can be justified if merchants can be served repeatedly and the team preserves time to respond to failure. Support effort, churn, payment delays and acquisition cost could materially worsen the model. A cash reserve should trigger review while alternatives remain available, not on the day the account reaches zero.

> **Common mistake**
> Do not confuse revenue with contribution, break-even with a validated market, or a founder’s unpaid labor with a costless operating model.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Outcome and teaching plan

What happened next

The founders shifted from their snowboard business toward software and launched Shopify in 2006. The later founder letter describes that transition as a response to an underserved merchant need. It is evidence of the choice and its rationale, not a substitute for the uncertainty faced before launch. [S1]

A 75-minute discussion

Minutes	Facilitation plan
0-10	Choose retail, custom work or platform; state the first customer.
10-25	Identify the gap between internal tool and external product.
25-40	Calculate runway and the acquisition-cost extension.
40-55	Design a paid test and a cash-based review trigger.
55-65	Reveal the launch and examine hindsight in the founder’s account.
65-75	Identify an internal capability worth testing as an external offer.

> **Closing question**
> What evidence would turn “we needed this” into “enough other people will pay us to provide it reliably”?

Assess the decision at its stated boundary. Later success cannot prove the original choice was sound; later failure cannot, by itself, prove it was unreasonable.