

## Theme 05: Business Model Frameworks - Etsy Case Study.

### Worksheet

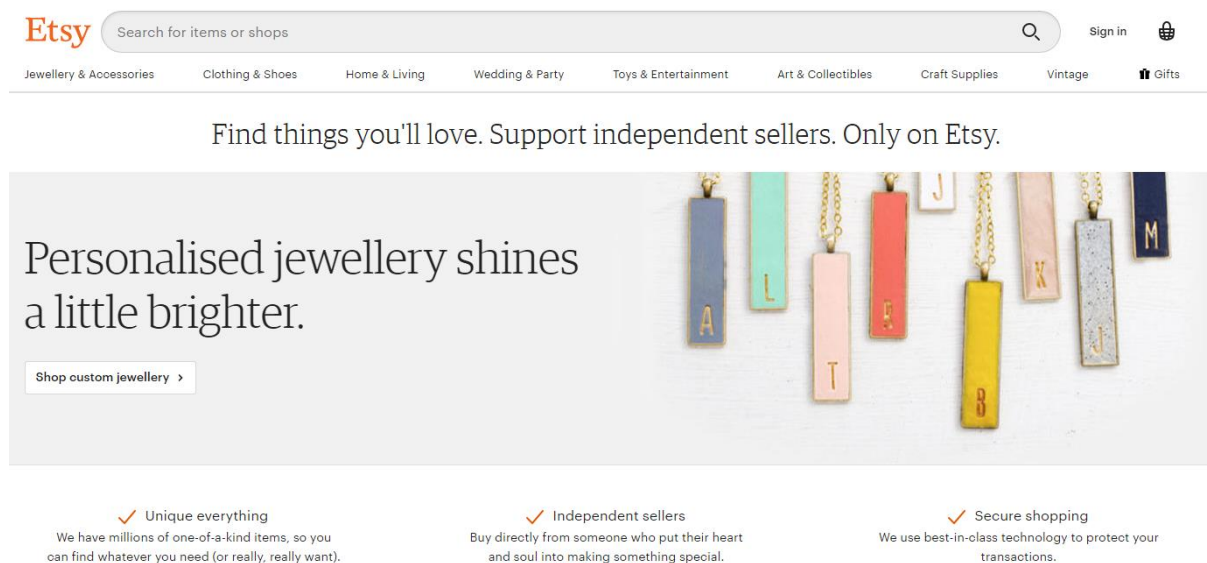
We learned from this theme that a business model framework can help an entrepreneur configure their business model to produce a viable and exciting business.

### Tasks:

1. Read the case study and use the completed Business Model Template to break down another business model (example provided).
2. Complete the discussion questions for self-study

### Etsy: Breaking Down a Business Model

• Web: [www.etsy.com](http://www.etsy.com) • Facebook: Etsy • Twitter: @Etsy



### Case Study Adapted from:

Barringer, B. R., & Ireland, R. D. (2019). Entrepreneurship: Successfully Launching New Ventures (sixth edition). Upper Saddle River: Pearson Education

### Introduction

Etsy is an e-commerce website that focuses on handmade or vintage items and unique factory-manufactured products. These items cover a wide range of product types, including jewellery, furniture, housewares, kitchen gadgets, clothing, knick-knacks, and art. The site resembles an open craft fair, where sellers (mostly small merchants and local artisans) set up Etsy stores and sell their products to buyers, who are people who want unique, mostly handmade products from small/local producers. Etsy launched in 2005. As of late 2017, Etsy had 54 million users registered as members, including 19.8 million active buyers and 1.7 million active sellers.

## History

The idea for Etsy originated in a woodworking shop. Rob Kalin, who earned a college degree in the classics, bypassed the traditional job market to focus on his woodworking talents.

He created a unique product, a computer encased in wood, but couldn't find a marketplace to sell it. So he, along with Chris Maguire, Jared Tarbell, and Haim Schoppik, launched Etsy, an online marketplace for crafts where hobbyists and artisans could connect with people interested in buying handmade goods.

From the beginning, Etsy championed the idea of community. The company saw itself as an advocate of small merchants and artisans. It also took steps to engage its community and empower its sellers.

Every Monday evening Etsy sponsored craft night, where 50 to 80 people came to its office in Brooklyn to make crafts. The company also sponsored employee craft nights where its employees would hone their craft-making talents.

At the same time, Kalin started holding virtual town hall meetings with Etsy sellers to provide tips to them on how to increase their sales. All this was done in part to build community, but there was a broader purpose. Kalin and his team knew that Etsy's financial success hinged on how much commerce flowed through its site.

Since it launched in 2005, Etsy has grown steadily. It currently employs 685 people in the United States and abroad and facilitates transactions in nearly 200 countries. Etsy remained a private company for 10 years. It went public on April 16, 2015, and trades on the NASDAQ under the ticker symbol ETSY. The company was valued at \$1.8 billion at the time of its IPO. In 2016, Etsy generated \$2.7 billion in sales.

Etsy's platform is designed to help people sell hand-made items. This photo contains a collection of headbands and other hair accessories made by an Etsy seller.



## How Etsy Works:

### To sell on Etsy

A seller registers and creates an online Etsy store. Creating a store is free. Each item in the store costs 20 cents to list. The prices in the store are determined by the seller. Etsy takes a 3.5 percent commission on each sale. An example of an Etsy store is AHeirloom, which can be seen at <https://www.etsy.com/shop/AHeirloom>. AHeirloom sells handmade wood items. One of its most popular items is kitchen cutting boards that come in the shape of states. At the time this case was written, AHeirloom had 287 items listed, ranging in price from \$8 to \$155. When a sale is made, AHeirloom collects the money and delivers the item to the buyer. Etsy bills AHeirloom and its other sellers once a month for its listing and commission fees.

## To buy on Etsy

A customer can either use the search bar on Etsy's home page to search for an item or can browse through a list of categories that includes Home & Living, Jewelry, Clothing, Toys & Games, Craft Supplies & Tools, and Weddings. A select number of items are also featured each day on Etsy's homepage. When a buyer enters an Etsy online store, he or she can read reviews from past buyers and see how the seller stacks up on a five-star scale. AHeirloom, for example, has over 4,973 reviews and nearly a perfect five-star rating.

## Business Model Breakdown

At the heart of Etsy's success is its business model. A business model is a firm's plan or recipe for how it creates, delivers, and captures value for its stakeholders. The Barringer/Ireland Business Model Template, completed for what Etsy looks like today, is shown nearby. The following is a breakdown of each of the four major categories of Etsy's business model. What is particularly instructive is the way the model fits together. As you read through the description of each category, notice how it affects the other categories and Etsy's business model as a whole.

## Core Strategy

Etsy's mission is ambitious. It wants to "re-imagine commerce in ways that build a more fulfilling and lasting world." To do this, Etsy has built its business around the neighborhood feel. Its focus is on constructing a way to shop that is meaningful to both sellers and buyers. To illustrate this point, Etsy CEO Chad Dickerson said, "Etsy, technologically and culturally, is a platform that provides meaning to people, and an opportunity to validate their art, their craft."

To further articulate Etsy's core values Dickerson said, "At the end of each transaction you get something real from a real person. There is existential satisfaction to that." In addition to this set of values, Etsy is an advocate for small merchants and artisans. These are two categories of businesses that have been hurt by mass production and the advent of the big-box store. Etsy is helping bring back these businesses by providing them a platform to sell their products to a sizeable audience of buyers.

Etsy's basis of differentiation flows from its mission to focus on handmade goods, the number of buyers and sellers on its site, and the sense of community that it has created. Although its website is easy to navigate, that's not what differentiates Etsy from its rivals in that many online businesses have websites that are easy to navigate. What differentiates Etsy are the factors mentioned above. It's instructive to note that Etsy's points of differentiation are made possible by its core competencies and key assets.

From the beginning, Etsy has excelled at helping its sellers increase sales via web-based tools, educational materials, and offline events. It also set its business up in a way that encourages its sellers to build awareness of Etsy in general. Each seller has its own Etsy store. As sellers promote their Etsy stores, they introduce people to Etsy more broadly, which is a key factor that has enabled Etsy to grow so quickly.

Etsy has two target markets—its sellers and its buyers. Its sellers are the producers of handmade goods. Its buyers are people drawn to the site because they want something unique, something that has a story. They want something that they enjoy telling other people about. It's a different motivation for buying than shopping at Walmart or on Amazon.com. This is what Etsy means by "re-imagining" commerce. Etsy's product/market scope has expanded since its inception. While the majority of items are still handmade, on October 1, 2013, Etsy announced that it would allow factory-made goods on its site. This move, according to the company, was necessary to allow its most successful sellers to expand their businesses and keep them from leaving the site.

There are restrictions. The seller must meet a set of labour and ecological criteria. Some controversy was caused by the decision to allow manufactured goods, but Etsy's numbers continue to grow.

## Resources

Etsy has three core competencies—the development of tools and educational materials to empower sellers, the growth of a vibrant community of buyers and sellers, and the ability to generate word-of-mouth awareness of its business. A key to Etsy's success has been a recognition that its sellers, which it affectionately calls Etsians, must be successful for the site to work. As a result, from the beginning Etsy has focused on developing tools, educational materials, and offline events to assist its sellers. For example, each year Etsy sponsors an event called the Etsy Success Symposium, which is a physical and online gathering of Etsy sellers for the purpose of helping one another increase sales. Etsy produces a number of publications, including the Etsy Seller's Handbook and the Etsy Success Newsletter, both geared toward helping Etsy newbies and veterans boost their clientele. Etsy Labs organizes community events for Etsy sellers, facilitates online workshops, and assembles Etsy teams, which are groups of sellers that organize around a particular location or craft. These efforts have enabled Etsy to build and maintain a vibrant community of buyers and sellers.

As mentioned earlier, Etsy's website is constructed in a way that has led to a core competency in generating word-of-mouth awareness of its business. As sellers promote their Etsy stores, they promote Etsy more broadly. Etsy has also been a leader in social media. It currently has close to 2.8 million Facebook likes and 2.7 million Twitter followers. The combination of an easy-to-navigate website and an aggressive social media presence has been instrumental in Etsy's growth. I

n regard to key assets, Etsy's platform is intuitive and easy to navigate. Its community of buyers and sellers continues to grow. Its sellers populate its site with a continual influx of fresh new products, which keeps its buyers coming back. Etsy takes deliberate steps to add to its key assets in ways that support its mission and provide people another reason to engage in its site. For example, in early 2012, Etsy became a Certified B Corporation. B Corporations are a new type of company that uses the power of business to solve social and environmental problems.

## **Financials**

Etsy has three revenue streams. The first is the 20 cent listing fee for each item listed on the site. While 20 cents doesn't sound like much, there are more than 40 million unique listings on the site. Second, Etsy charges a 3.5 percent commission on each item sold. Third, the company earns money from seller services such as its advertising platform, payment processing, and website hosting (for sellers who sell products via their own website in addition to their Etsy store). This mix of revenue streams makes sense given Etsy's core strategy and its resources. The larger and more engaged a community it builds, the more revenue it will earn from listing fees and commissions.

Etsy's cost structure is based on cost containment and a high fixed/low variable cost model. Etsy has high infrastructure costs, driven by the network capacity and data storage necessary to service 54 million registered members, 19.8 million active buyers, 1.7 million sellers, and over \$2.7 billion in annual sales. It also has a staff of 685 that manages the site and maintains the Etsy community. To support its core strategy, the firm has people with job titles that don't exist in most businesses, such as Head of Seller Education. Etsy's variable costs are low. It costs Etsy very little to add another buyer or seller to its site.

Notable is the amount of funding that Etsy has raised—\$97 million prior to the initial public offering (IPO) and \$237 million in the IPO. The funding has been used to flesh out the company's infrastructure, add employees, invest in strategies for expansion, and fund seller education initiatives.

## **Operations**

Etsy's website was built and is maintained by an in-house staff of IT professionals. The site has a homespun rather than a highly polished look. This is intentional, although some critics have urged Etsy to up its game some in terms of site design and functionality. As mentioned earlier, Etsy is strictly a platform that brings buyers and sellers together. While a seller's Etsy store resides on Etsy's website, all of the logistics involved with the sales process are handled by the seller. This includes stocking the store, processing orders, collecting payment, and shipping the merchandise. This arrangement relieves Etsy of the cost and responsibility of providing for those functions.



In terms of channels, the majority of sales flow through Etsy's website, via one-to-one transactions between individual buyers and Etsy sellers. In 2015, Etsy launched Etsy Wholesale, a platform that connects Etsy sellers with brick-and-mortar stores. The program allows retailers to shop in a restricted section of the website that features sellers Etsy has screened to make sure they are able to handle large orders. As of late 2015, more than 2,500 sellers and 6,500 local boutiques had signed up for the service. While most of the stores that have signed up are small shops, a few large retailers, like Nordstrom and Whole Foods, are also participating in the program. For a seller, opting into the program requires a \$100 one-time fee and a 3.5 percent commission on all items sold through the brick-and-mortar stores. Etsy also has tried some special promotional events, such as setting up temporary physical storefronts in New York City during the Christmas season to feature products made by Etsy sellers.

Etsy has several key partners, or groups of partners, which improve its operations and help expand sales. In terms of operations, by publishing its API (Application Programming Interface), Etsy has enabled third-party developers to create tools that help Etsy sellers more efficiently manage their inventory and track their shipments. Etsy works with a number of organizations and businesses to support crafts and homemade products. An example is Etsy's involvement in New York's annual Renegade Craft Fair, which is an event that features and champions the work of artisans and small merchants. Etsy is also branching into areas that enable it to support small businesses and entrepreneurship in more general ways. For example, in 2013, Etsy announced plans to collaborate with local communities to teach entrepreneurship skills to residents. By doing this, Etsy is helping seed the next generation of Etsy sellers. All of these efforts are consistent with Etsy's mission of re-imagining commerce and acquainting as many people as possible with Etsy and the marketplace it facilitates.

## **Challenges Ahead**

Etsy's primary challenge will be to maintain the integrity of its business model while trying to grow. The complexity of this challenge is starting to show.

Many Etsy sellers, for example, were not happy with the company's decision to allow the sale of manufactured goods, which is now being done by several thousand Etsy sellers. Etsy Wholesale, which has helped Etsy sellers get their goods into retail stores, is at the same time a positive and a challenge. While the initiative has increased sales, Etsy's most powerful argument when it comes to persuading big retailers to carry products from its most prolific sellers is that the products are "homemade." But Etsy risks weakening that homemade brand by helping sellers find more efficient ways to make their products to scale their businesses. Sellers complain about rising fees, which may be an artifact of Etsy's need to produce sufficient profits to satisfy stockholders. Its initial listing fee was 10 cents per item, and it's now 20 cents.

Some also complain about the lack of traditional marketing and would like to see Etsy take a more active role in driving traffic to its site. Recall that Etsy takes the opposite approach. It relies on its sellers to promote their Etsy stores, and benefits when the customers of individual sellers learn about Etsy more broadly.

Etsy also faces increased competition. Its biggest domestic competitors are Amazon, eBay, and Craigslist. In 2016, Amazon launched Amazon Handmade, which is a new store on Amazon for invited artisans to sell their handcrafted goods. It's hard to know if Amazon's entry will help or hurt Etsy. If it cannibalizes Etsy's sales, then that's a negative. If it increases awareness and interest in homemade goods and industry sales increase nationwide, then that's a positive. There are also several companies that have created Etsy-like platforms in foreign countries, like DaWanda in Germany and ezebee.com in Switzerland. These companies are now competing with Etsy in global markets.

Core Strategy		Resources	
<b>Business Mission</b> <ul style="list-style-type: none"> <li>• Re-imagine commerce in ways that build a more fulfilling and lasting world</li> </ul>	<b>Basis of Differentiation</b> <ul style="list-style-type: none"> <li>• Focus on handmade goods</li> <li>• Largest number of registered buyers and sellers of handmade goods in the world</li> <li>• Sense of community associated with its site</li> </ul>	<b>Core Competencies</b> <ul style="list-style-type: none"> <li>• Developing and maintaining a vibrant community of buyers and sellers</li> <li>• Development of tools and educational materials to empower sellers</li> <li>• Generating word-of-mouth awareness of their business</li> </ul>	<b>Key Assets</b> <ul style="list-style-type: none"> <li>• Intuitive and easy-to-navigate web-based platform</li> <li>• Etsy's community of both buyers and sellers</li> <li>• Continual inflow of high-quality handmade products</li> <li>• Is a Certified B Corporation</li> </ul>
<b>Target Customer(s)</b> <ul style="list-style-type: none"> <li>• Buyers—A global clientele that wants unique, hand-made products from small/local producers</li> <li>• Sellers—Small merchants, home-based businesses and local artisans who want to sell their goods online</li> </ul>	<b>Product/Market scope</b> <ul style="list-style-type: none"> <li>• Handmade goods</li> <li>• Manufactured goods that meet strict guidelines</li> <li>• Global audience of both buyers and sellers</li> </ul>		
Financials		Operations	
<b>Revenue Streams</b> <ul style="list-style-type: none"> <li>• Sales commissions—3.5% on each item sold via the Etsy website</li> <li>• 20 cent listing fee for each item listed</li> <li>• Seller services—advertising platform, payment processing, website hosting</li> </ul>		<b>Product (or Service) Production</b> <ul style="list-style-type: none"> <li>• Etsy's secure platform allows small merchants and artisans that have products to sell to connect with people interested in buying hand-made goods</li> <li>• Etsy's platform was built and is maintained by an in-house staff of IT professionals</li> </ul>	<b>Channels</b> <ul style="list-style-type: none"> <li>• Esty website</li> <li>• Etsy Wholesale—a platform that connects Etsy sellers with brick-and-mortar stores</li> <li>• Temporary holiday storefronts</li> </ul>
<b>Cost Structure</b> <ul style="list-style-type: none"> <li>• Cost-driven business</li> <li>• High fixed/low variable costs</li> <li>• Major categories of costs: Web-based platform development; staff salaries and general administrative; seller education initiatives</li> </ul>	<b>Financing/Funding</b> <ul style="list-style-type: none"> <li>• \$97.3 million in angel and venture capital funding and \$237 million in IPO</li> <li>• Funding from operations</li> </ul>	<b>Key Partners</b> <ul style="list-style-type: none"> <li>• Third-party developers</li> <li>• Local organizations and businesses</li> <li>• Community and business alliances</li> </ul>	

Etsy: Barringer/Ireland Business Model Template

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Use this Case study as a template to better understand how to apply the Business Model Template to another business. An example is CoachUp. You can read the case study here:

<https://www.si.com/media/2016/08/24/coachup-athlete-training-stephen-curry-nerlens-noel>

### Discussion Questions- answer these questions for self-study

1. How does Etsy create, deliver, and capture value for its shareholders?
2. Is Etsy's business model a standard or a disruptive business model? Explain your answer.
3. How is Etsy's business model different from eBay's business model for the makers of handmade goods?
4. In your judgment, what is the most serious challenge facing Etsy? To what extent does the challenge threaten Etsy's business model? How should Etsy confront the challenge?

Sources: Etsy Homepage, available at [www.etsy.com](http://www.etsy.com) (accessed February 12, 2017); S. Kessler, "Etsy Wants to Bring Its Handmade Wares to a Brick-and-Mortar Chain Store Near You," *Fast Company*, May 7, 2015; P. Armstrong, "What You Don't Know About Etsy (And Its 2017 Strategy)," *Forbes*, Dec 15, 2016; "Etsy," Wikipedia, [www.wikipedia.com](http://www.wikipedia.com) (accessed February 12, 2017); "The 'Etsy Economy' and Changing the Way We Shop," *Entrepreneur*, March 22, 2013.