

Etsy: Can Profits and Purpose be Crafted Together?

Etsyⁱ is an online marketplace where consumers looking for handmade, craft, and otherwise distinctive products are connected to sellers. As of 2021, there were 96 million buyers and 7.5 million sellers on the platformⁱⁱ. Etsy is a company with a social mission, but one that has struggled with the nature of its legal structure.

Building the Business

Etsy launched in 2005. The company grew quickly in its early years but faced many challenges, including technical problems and management upheavals.ⁱⁱⁱ One thing that was steady during this time was its commitment to being a different type of business. As a privately held company, Etsy became a Certified B Corporation in 2012. B Corps are committed to providing value to a wider range of stakeholders than just shareholders (owners). B Corp certification, which is given by the nonprofit B Labs, was a central part of signaling that Etsy held a wider view of its purpose as a company.

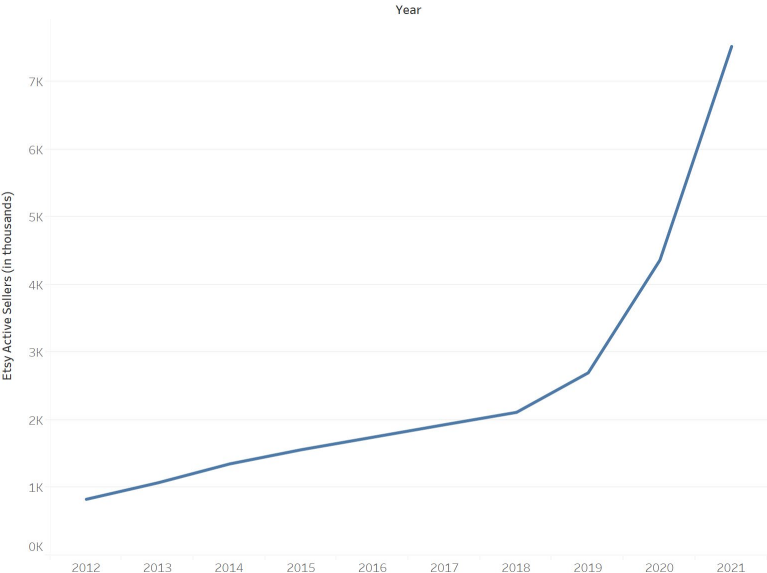
Etsy was certified by B Labs three times from 2012 to 2016. The company raised its score from 80 (the minimum required to obtain certification) in May 2012, to 105.1 in October 2013, to 126.8 in January 2016^{iv}. (The 2016 scores were impressive: Community 26.4, Customers 40.4, Environment 13.9, Governance, 15.2, and Workers 31.1).

After becoming a B Corp, Etsy continued to grow strongly. An important way of assessing Etsy's progress was its ability to add active sellers (see Figure 1). This was critical given its business model. Etsy needed sellers with interesting products to entice buyers to come to its site; it also needed lots of potential buyers to visit the site in order to attract more sellers. This business model is known as a two-sided or multi-sided market.

For sellers of craft goods, Etsy provided critical access to buyers. The marketplace gave a way for people with creative talents to create a small business—an opportunity they might not otherwise have. While some sellers on Etsy are major businesses, many are tiny businesses run by new entrepreneurs. Most sellers, 83%, are women^v.

Etsy positions itself as a marketplace for unique products. For the typical Etsy customer, the ability to find unusual or special merchandise, not mass-produced fare, is a key part of its appeal. The company makes money by charging sellers fees, including a 6.5% transaction fee^{vi}.

Figure 1. Etsy Active Sellers^{vii}



Etsy Goes Public

Success brought new challenges. In 2015 Etsy issued an initial public offering (IPO). This is a process of selling shares to the public and allowing those shares to be publicly traded. In essence, Etsy expanded its pool of company owners.

The period immediately after going public saw plenty of turbulence. Amazon, the giant online retailer, announced the launch of Amazon Handmade. This seemed to directly target the same market as Etsy’s. Reports of counterfeit items being sold on Etsy further

dampened confidence. Layoffs followed^{viii}, with 22% of the workforce (230 people) finding themselves without a job in the first half of 2017. The CEO was one of those people. He was replaced by Josh Silverman. The CFO (Chief Financial Officer) and CTO (Chief Technology Officer) also went^{ix}.

C Corporation or Public Benefit Corporation?

When it listed as a public company, Etsy registered as a C Corporation. This form of corporation holds the company as a separate entity from its owners, and the corporation as an entity is liable to taxation. This status limits the liability of the owners in the event that the firm goes bankrupt^x.

Etsy's C Corporation status set up a challenge. When it was a private company, Etsy was committed to eventually obtaining status as a public benefit corporation, but this condition had lapsed when the firm went public^{xi}. Furthermore, one requirement of remaining B Corp Certified is to register as a public benefit corporation wherever it is possible under state law. (Firms have a period of time to prepare their benefit corporation registration^{xii}). Because Etsy registered in Delaware, where benefit corporation registration is possible, the company would need to become a public benefit corporation (rather than a C corporation) if it wished to retain its B Corp status.^{xiii}

Registering as a public benefit corporation does not require the extensive certification process that accompanies B Corp certification. In many ways, registering as a benefit corporation seems relatively easy. Unlike the extensive review process conducted by B Labs every three years to gain and maintain B Corp certification, becoming a benefit corporation merely requires filing some initial legal paperwork with the state. This paperwork says that the company will consider benefits to stakeholders beyond shareholders in its decision-making. And while many states require public benefit corporations to publish an annual report for shareholders and the public^{xiv}, there would be no audit of Etsy's activities by the state of Delaware.

De-certification as a B Corp

For several years it was unclear what would happen. Etsy managers were aware of the reputational risk of losing B Corp certification; they even disclosed this risk in the company's IPO documents (disclosures made to prospective shareholders when going public)^{xv}. Yet, managers were worried that, if Etsy became a benefit corporation, a small number of shareholders could force a vote on activities they saw as not living up to the ideal of benefiting all stakeholders.

On the other hand, registration as a benefit corporation remained part of B Labs' requirements for certification, and B Labs was unwilling to change the rules for Etsy despite its high profile. B Labs' concern was that there needed to be some sort of enforcement mechanism—"teeth"—for B Corp certification. The risk of losing certification status was vital to the certification having any meaning.

In late 2017 the matter of Etsy's legal structure was settled. The firm would not seek benefit company status and so would lose its B Corp certification.

"Although Etsy will no longer be a Certified B Corporation, Etsy and B Lab share a long-term vision for the role of business in society and the positive impact companies can, and should, have on the world, and we look forward to exploring new opportunities to work with them to advance that shared vision." Etsy CEO Josh Silverman, November 25, 2017^{xvi}

The decision by Etsy not to re-certify was a disappointment for B Labs. They did, however, leave open the possibility of working with Etsy in the future.

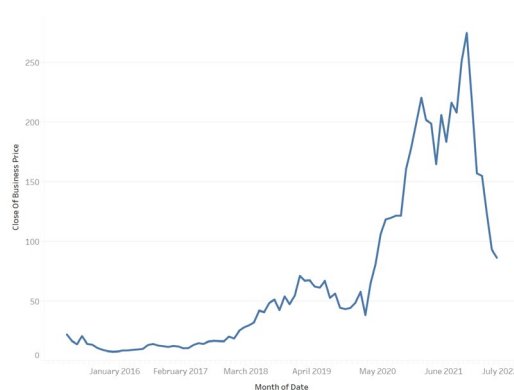
"B Lab looks forward to exploring with Etsy the possibility of developing a new tool for external communications and public accountability by companies seeking to engage meaningfully with the B Corp movement but are not Certified B Corps." Jay Cohen Gilbert, Cofounder, B Labs, December 1, 2017^{xvii}

Epilogue

Following the B Corp decision, Etsy continued to post significant increases in active sellers on its website. The stock market generally reacted favorably to its new strategy. The price of a share in Etsy showed significant gains into 2021 (see Figure 2). By May 2022, the share price decreased noticeably but still remained considerably higher than at the time of de-certification in late 2017. The company still emphasized its social mission after de-certification. As of December 2022, Etsy describes its values as follows^{xviii}:

- We commit to our craft: Our work has the power to change lives. That's why we strive to learn continuously and excel at what we do.
- We minimize waste: Time, resources, and energy are precious, so we focus only on what will have the greatest impact.
- We embrace differences: Diverse teams are stronger, and inclusive cultures are more resilient. When we seek out different perspectives, we make better decisions and build better products.
- We dig deeper: The best solutions to meaningful challenges are rarely easy or obvious. We stay curious, balance our intuition with insights, and decide with confidence.
- We lead with optimism: We believe in our mission, and we believe in each other. We see the world as it is, set ambitious goals, and inspire one another with generosity of spirit. Together, we reimagine what is possible.

Figure 2. ETSY Share Price



Endnotes

- ⁱ Case written by Neil Bendle (neilbendle.com). You are free to use it in any way you wish.
- ⁱⁱ ETSY 2021 Integrated Annual Report
- ⁱⁱⁱ Old GigaOm, August 23, 2013, Meet the man behind New York's other billion dollar internet company. This one makes money <https://old.gigaom.com/2013/08/23/meet-the-man-behind-new-yorks-other-billion-dollar-internet-company-this-one-makes-money/>, accessed May 11, 2022
- ^{iv} data.world, B Corp Impact Data, <https://data.world/blab/b-corp-impact-data>, accessed April 2022,
- ^v Key Etsy Stats, Facts, and Trends, <https://thrivemyway.com/etsy-stats/>, accessed May 11, 2022
- ^{vi} Etsy, Fees & Payments Policy, <https://www.etsy.com/legal/fees/>, accessed May 11, 2022
- ^{vii} Data from Statista, <https://www.statista.com/statistics/409374/etsy-active-sellers/> Accessed May 11, 2022, Etsy: number of active sellers 2012-2021, Published by Marina Pasquali, Apr 29, 2022
- ^{viii} The Motley Fool, If You Invested \$5,000 in Etsy's IPO, This Is How Much Money You'd Have Now, By Rick Munarriz - Dec 11, 2019 <https://www.fool.com/investing/2019/12/11/if-you-invested-5000-in-etsys-ipo-this-is-how-much.aspx>, accessed May 12, 2022
- ^{ix} The Motley Fool, More Layoffs at Etsy as the Company Tries to Drive Profit Growth By Nicholas Rossolillo - Jul 3, 2017, <https://www.fool.com/investing/2017/07/03/more-layoffs-at-etsy-as-the-company-tries-to-drive.aspx>, accessed May 11, 2022
- ^x Investopedia, "C Corporation" By JULIA KAGAN Updated July 04, 2021, <https://www.investopedia.com/terms/c/c-corporation.asp>, accessed May 11, 2022
- ^{xi} Technical.ly, Brady Dale, "Over Etsy's B Corp status, who will bend: B Lab or Etsy?", March, 16, 2015, <https://technical.ly/uncategorized/etsy-ipo-b-corp-status/>, accessed May 11, 2022
- ^{xii} Technical.ly, Brady Dale, "Over Etsy's B Corp status, who will bend: B Lab or Etsy?", March, 16, 2015, <https://technical.ly/uncategorized/etsy-ipo-b-corp-status/>, accessed May 11, 2022
- ^{xiii} "Etsy Gives Up B Corp Status to Maintain Corporate Structure", November 30, 2017, Ina Steiner, <https://www.ecommercebytes.com/2017/11/30/etsy-gives-b-corp-status-maintain-corporate-structure/>, accessed May 11, 2022
- ^{xiv} Benefit Corporations, B Lab, <https://usca.bcorporation.net/benefit-corporation/>, accessed December 9th 2022
- ^{xv} Technical.ly, Brady Dale, "Over Etsy's B Corp status, who will bend: B Lab or Etsy?", March, 16, 2015, <https://technical.ly/uncategorized/etsy-ipo-b-corp-status/>, accessed May 11, 2022
- ^{xvi} Etsy Announcement, Business as a Force for Good: Defining Etsy's Path, 11/25/2017 <https://www.etsy.com/news/business-as-a-force-for-good-defining-etsys-path/>, accessed May 11, 2022
- ^{xvii} Westaway, B Lab Responds to Etsy, <https://westaway.co/insights/b-lab-responds-etsy/>, accessed May 11, 2022
- ^{xviii} Etsy, "Our Guiding Principles", <https://careers.etsy.com/global/en/guiding-principles>, accessed November 4th, 2022