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ETSY: A "B CORP" START-UP TAKES ON AMAZON[1]

Ram Subramanian wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

> We succeed when our sellers succeed, and we believe our reputation as an authentic, trusted marketplace is the foundation for the long-term value we expect to create for our entire community, including our investors, for decades to come.
>
> —Chad Dickerson, Etsy, Inc., chief executive officer.[2]

Etsy, Inc. (Etsy) was an online craft goods seller based in Brooklyn, NY. At the end of the second quarter of FY2015/16 Etsy beat expectations and finished the period with a revenue of US$61.4million.[3] Despite this success, some analysts were dubious about the company's cautious earning guidance for future quarters. Some pointed towards the recent threat by Amazon to enter the handmade goods market, which had a negative impact on Etsy's share price.[4] Dickerson had shepherded Etsy from start-up to a certified B Corporation and then towards a successful initial public offering (IPO) on the New York Stock Exchange. He now had to develop a plan to guide the company through a challenging market environment.

THE ONLINE RETAIL MARKETPLACE

Online shopping as a retail channel began and took off in the mid-1990s. Pure online retailers such as Amazon and eBay initially dominated commerce on the Internet. The collapse of the dot-com bubble in 1999–2000 did not slow the growth of Internet commerce. On the contrary, Internet commerce grew from US$15 billion in 1999 to $27 billion in 2000.

The pace of growth increased as brick-and-mortar retailers moved into the online retail market (e.g., J.C. Penney, H&M, and T.J. Maxx) and pure online retailers opened physical storefronts to increase their sales and expand their brand reach (e.g., Patagonia and Warby Parker). This trend was referred to as "multi-channel retailing." Companies facilitated customer transactions by using multiple connected channels such as brick-and-mortar stores, online store sites, mobile apps, and telephone.

By 2015, multi-channel retailing was giving way to "omni-channel retailing." The goal was to create "a seamless consumer experience through any and all shopping channels: mobile, tablet, computers, brick-and-mortar stores, television, radio, direct mail, and catalogue."[5]

In 2014, the global online retail market accounted for $839.8 billion in revenues in 2014. This was a 20 per cent increase over 2013. The market was forecasted to top $1,500 billion in 2018 (see Exhibit 1). The United States regained the top spot from China, earning over $300 billion in 2014. Although growing at a rapid pace, the online market still accounted for less than 10 per cent of the total retail market. The leading product category in online retail was clothes and accessories, followed by books and music.[6]

Although e-commerce retailers used a variety of business models to compete, Amazon popularized the virtual marketplace — a part of the broader brokerage model. A broker such as Amazon played the role of market maker by bringing together buyers and sellers and facilitating transactions between them for a fee. More specifically, a virtual marketplace "or virtual mall, was a hosting service for online merchants that charged setup, monthly listing, and/or transaction fees."[7] A virtual marketplace took advantage of the "long-tail"[8] phenomenon by carrying a larger inventory of goods than a brick-and-mortar store, and by connecting buyers and sellers over a wider geographic space.

COMPETITION

The competitive environment for Etsy consisted of large retailers, such as Amazon and eBay, and niche retailers that specialized in handmade or artisanal goods, such as NOVICA. Retailers in the virtual marketplace also competed with traditional brick-and-mortar retailers.

Amazon

Launched in 1995 as the "world's largest bookstore," Amazon reported revenues of nearly $89 billion and a net loss of $241 million in 2014. In the years after its launch, Amazon branched out of books. By 2015, it was selling a wide variety of goods including electronics, apparel, and hard goods. Amazon also expanded into enabling third-party sellers to sell new and used goods on the Amazon website.

In 2014, North America accounted for 62 per cent of Amazon's revenue, with 38 per cent coming from various international markets. Media products made up 25 per cent of sales; 68 per cent came from electronics and other general merchandise; and 7 per cent came from miscellaneous product categories. According to Forrester Research, Amazon had a penetration rate of 88 per cent in the U.S. market and 40 per cent internationally. In 2014, Amazon reported that it had over 2 million third-party sellers on its site who sold over 2 billion items worldwide.[9] In 2015, the various Amazon sites (domestic and international) were visited by 175 million viewers per month — the highest for a retailer.[10]

eBay

Founded in 1995, eBay was the world's largest online trading community by 2015. eBay did not limit the products sold on its site.

eBay reported revenues of $17.9 billion and net income of $46 million in 2014. Its seller base of 25 million in 2014 had not changed from 2012. eBay had 155 million buyers in 2014 who bought goods worth $255 billion. About 59 per cent of goods sold on eBay were sold to customers outside the United States, while 75 per cent were business-to-consumer transactions. eBay had 122 million unique visitors per month to its various sites. The company believed that the online commerce market was a $1 trillion market opportunity globally, likely propelled by visitors using mobile devices for transactions.[11]

NOVICA

NOVICA was founded in 1999 to help crafters worldwide find buyers. The founding team almost immediately signed a partnership agreement with National Geographic magazine to both drive traffic to the website and help the founding team locate crafters. The company's mission was "to reinvent the export/import process for artisans and find a better way to sell their products to the world." [12]

The company began selling in UNICEF catalogues in 2006 and sold artisanal goods worth $50 million from 17,600 artisans in 2014. The privately held company did not report revenues but indicated that their goal was $20 million in 2015.[13]

Brick-and-Mortar Stores

Offline competition for Etsy came from a fragmented set of local stores that sold handmade goods, and from flea markets, the traditional place for crafters to sell handmade goods. Flea markets were offline meeting places for buyers and sellers of various goods, both used and new items. The National Flea Market Association reported that there were over 1,100 flea markets in the United States where over 2.25 million vendors sold $30 billion of goods in 2014. Over 150 million customers visited these flea markets in 2014.[14] An association that advanced the interests of flea markets reported:

> Flea markets across the United States have seen a surge of interest in the past few years. Some credit goes to the popularity of TV reality shows like American Pickers, Oddities, or *Market Warriors.* However, this phenomenon has deeper roots: the country's weakened economy, along with the booming development of second-hand shops, has created a new generation of shoppers who appreciate both the reasonable prices and the fun of the flea market experience. And the best of all is that flea markets often overflow with unsought treasures![15]

B CORPORATIONS

In 2006, Jay Coen Gilbert, Bart Houlihan, and Andrew Kassoy founded the non-profit B Labs. Gilbert and Houlihan were part of the founding team of AND 1, a basketball footwear and apparel company, which they later sold to a private equity firm.[16] B Labs was founded on the principle that business success should not be defined purely on financial terms. The founders believed that, instead, companies should "meet rigorous standards of social and environmental performance, accountability, and transparency."[17] To achieve this goal, B Labs started a certification process, much like Fair Trade for organic coffee and the United States Department of Agriculture for meat.

A company could earn the designation of B Corporation if it passed the B Impact Assessment with a minimum score of 80 out of a possible 200. The assessment consisted of self-reported measurements on a variety of metrics that were specifically tailored to company size, geography, and industry. For example, a typical assessment for a U.S. based retailer with 500 to 999 employees consisted of questions categorized into governance, workers, community, environment, and customers.[18] Obtaining the minimum score of 80 allowed a company to refer to itself as a B Corporation (or "B Corp" for short), a status that *Inc.* magazine called "the highest standard for socially responsible businesses."[19] Each year, B Labs randomly audited about 10 per cent of its members to ensure integrity in the certification process.

Although the B Corporation certification was not legally recognized, B Corporations — if their organizational form was a corporation — had specific requirements to follow in order to maintain their