Etsy's Handmade Marketplace Model

Idea In Short

Etsy runs a two-sided marketplace that connects independent makers with buyers who want handmade, vintage or craft-supply goods rather than mass-produced alternatives. Founded in a Brooklyn apartment in 2005, the company built its business on a simple exchange: sellers list items for a small fee, and Etsy collects commissions, payment charges and advertising revenue on every transaction that follows. That formula produced $2.89 billion in revenue in 2025, even as gross merchandise sales slipped 5.3% and active buyers fell to 86.5 million. Etsy sold its Depop resale app to eBay for $1.2 billion in 2026 and installed a new chief executive, Kruti Patel Goyal, to sharpen its focus on the original handmade marketplace as Amazon, Temu and Shein compete for the same shoppers

produced, and by 2017 slowing sales growth drew pressure from shareholders. The board replaced then-chief executive officer [CEO] Chad Dickerson with Josh Silverman, a former Skype and Evite executive who had joined Etsy's board months earlier. Silverman tightened seller policies, invested in search and recommendation technology, and pushed Etsy Payments and mobile checkout to the center of the buyer experience. The company narrowed its focus back to the marketplace itself rather than chasing every category Amazon or eBay already covered, and that discipline set up a decade of steadier growth before Silverman moved into an executive chair role in 2026.

A Fee Stack Built for Volume

Etsy earns money from sellers at nearly every step of a transaction. Listing a product costs $0.20 for four months, and the fee renews automatically each time an item sells, so a popular listing generates repeat charges without any added selling effort. Etsy then takes a 6.5% transaction fee on the total sale price, including shipping and any personalization charge, plus a payment processing fee of roughly 3% plus $0.25 in the United States. Sellers can add cost-per-click advertising, a $10 monthly Etsy Plus subscription, or a standalone Pattern website, each layering additional revenue onto the core commission. Combined, this fee stack produced $2.89 billion in revenue for 2025, according to Etsy's annual filing.2

Growth Cools as Scale Matures

Etsy's fee model depends on transaction volume, and that volume slowed in 2025. Total gross merchandise sales [GMS] across Etsy's marketplace and Depop reached $11.92 billion for the year, down 5.3% from 2024, while active buyers fell 3% to 86.5 million. Active sellers eased to 5.6 million, reflecting both departures and a slower pace of new shop creation. Average order value rose enough to offset some of the buyer decline, but the trend line marks a shift from Etsy's earlier years of double-digit growth.3

Management has responded by trimming costs and narrowing investment toward the core marketplace rather than new ventures.

Cutting Depop Loose

Etsy bought the secondhand fashion app Depop in 2021 for $1.625 billion, betting that

younger buyers on a resale platform would eventually cross over to the main marketplace. That crossover never scaled the way Etsy hoped, and in February 2026 the company agreed to sell Depop to eBay for $1.2 billion in cash, a price below what Etsy originally paid.4

Depop generated close to $1 billion in gross merchandise sales in 2025 with roughly seven million active buyers, most under 34, showing the asset had real scale even if it never justified its price tag inside Etsy. Proceeds from the sale are earmarked for share repurchases and reinvestment in the core handmade marketplace, a signal that Etsy sees more value in depth than in diversification.

Leadership Passes to Patel Goyal

Effective January 1, 2026, Etsy handed the chief executive role to Kruti Patel Goyal, while Josh Silverman moved into the position of executive chair.5

Patel Goyal joined Etsy in 2010 and rose through product, marketing and operations roles before running Depop as its own CEO from 2022 through 2024. She returned to Etsy in January 2025 as president and chief growth officer, overseeing product and marketing ahead of the succession. Her early priorities include Artificial Intelligence [AI] powered listing tools and personalization features aimed at reversing the buyer decline, along with an international push that helped non-U.S. currency-neutral sales grow again in the first quarter of 2026.

Squeezed Between Amazon and Fast Fashion

Etsy's niche positioning does not insulate it from broader e-commerce competition. Amazon Handmade targets the same craft sellers with lower fees and Amazon's logistics network, while Temu and Shein have built marketplaces around ultra-low prices and fast delivery that pull budget-conscious shoppers away from small sellers entirely. Temu's gross merchandise volume reached an estimated $22 billion in 2025, and Shein's marketplace business generated roughly $6 billion in U.S. sales, figures that dwarf Etsy's handmade category.6

Etsy has responded with a purchase protection guarantee, stricter enforcement against resellers who violate its handmade policy, and AI tools meant to help sellers write better

listings, betting that authenticity, not price, is the fight it can still win.

Keep commerce human

Key Partners

Etsy's key partners are payment processors that power Etsy Payments, shipping carriers such as USPS and UPS, and international couriers that fulfill cross-border orders. Third-party developers who build tools through Etsy's public API extend the platform's functionality without added engineering cost. Sellers themselves function as partners in the two-sided sense, supplying the inventory that gives the marketplace its identity. Marketing partners, including social platforms, extend Etsy's reach to new buyers.

Key Activities

Etsy's central activity is building and maintaining the marketplace platform, including search, checkout, payments and seller tools that keep transactions running smoothly. Trust and safety work, reviewing listings for compliance with handmade and vintage rules, protects the niche positioning that separates Etsy from generic marketplaces. Marketing to acquire and retain buyers, plus seller education through guides and events, rounds out the core activity set.

Key Resources

The Etsy platform itself, including its search algorithm, mobile app and payment infrastructure, is the company's primary resource. Its community of more than 5 million active sellers and 86 million buyers creates the network effects that make the marketplace valuable. Brand equity built around handmade authenticity and the Etsy name also functions as a resource that competitors cannot easily copy.

Value Propositions

For buyers, Etsy offers unique, handmade or vintage items unavailable through mass retailers, backed by seller ratings and a purchase protection guarantee. For sellers, Etsy

provides a ready storefront, payment processing and an existing audience of millions, without the cost of building independent e-commerce infrastructure. Both sides gain simplicity: one marketplace to search or list in, instead of scattered independent sites.

Customer Relationships

Etsy relies on community-driven relationships rather than one-on-one account management. Buyers and sellers interact directly through messaging, reviews and shop policies, which Etsy moderates but does not control. The company reinforces trust through seller education, forums and in-person events, and through customer support for disputes over shipping or product quality.

Channels

The Etsy marketplace app and website are the primary channel connecting buyers and sellers. Social media, search advertising and word of mouth, particularly among repeat buyers, drive new traffic to seller shops. Etsy also promotes sellers through email marketing, seasonal gift guides and its Offsite Ads program, which places listings on external search and social platforms for an added fee.

Customer Segments

Etsy serves two distinct segments that depend on each other: buyers seeking handmade, vintage or craft-supply items, and independent sellers or small manufacturers producing them. Within buyers, the platform skews toward shoppers seeking gifts, home decor and personalized items rather than everyday commodities. Sellers range from hobbyists earning supplemental income to small businesses that rely on Etsy as their primary sales channel.

Cost Structure

Etsy's costs center on platform engineering, data infrastructure and payment processing needed to run a global marketplace securely. Customer support, trust and safety enforcement, and seller education programs add significant operating expense. Marketing spend to acquire buyers, along with staff compensation, rounds out the largest cost categories.

Revenue Streams

Etsy's revenue comes from listing fees, transaction commissions of 6.5% and payment processing charges collected on nearly every sale. Additional streams include cost-per-click advertising, the Etsy Plus subscription at $10 per month, and the Pattern website builder. Together these layered fees turn marketplace volume directly into recurring revenue.

- 1A Brief History Of Etsy
- 2Etsy 10-K Annual Report
- 3Etsy GMS, Revenue Rise In Q4 2025
- 4Etsy Sells Depop To EBay For $1.2 Billion
- 5Etsy Leadership Transition Announcement
- 6Etsy Cedes Ground To Amazon, Walmart, Shein, Temu

Summary

Etsy's business model succeeds by converting a subjective idea, that handmade goods carry more meaning than mass-produced ones, into a repeatable fee structure spread across millions of listings every month. Listing charges, transaction commissions, payment processing and optional advertising each add a small percentage to every sale, and multiplied at scale they produced steady revenue even as gross merchandise sales declined in 2025. Selling Depop and installing Kruti Patel Goyal as chief executive signal a return to that original focus rather than a chase for scale against Amazon, Temu or Shein. Whether that discipline restores buyer growth depends on how well Etsy keeps sellers profitable while defending prices against platforms built for speed and volume rather than craftsmanship