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GOES

*Can a marketplace for crocheted
infiltrate the shelves*



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PRO

*blankets and hand-beaded necklaces
of your local mall?*

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TWO YEARS AFTER SETTING UP

her online shop, Terri Johnson had the kind of holiday season most business owners dream about. By Thanksgiving 2009, orders for her custom-embroidered goods started streaming in at a break-neck pace. And the volume only increased heading into December. Johnson was hardly feeling festive, though. To get the merchandise out the door, she worked nonstop, hunched over the embroidery machine in her basement, stitching robes, aprons, and shirts until just a few days before Christmas. "I was barely seeing my family," she recalls. The problem was that Johnson's main venue, shopmento, is a storefront on Etsy.com. And she feared that if she hired help, invested in new equipment, or rented a commercial workspace, she might run afoul of Etsy policies and get kicked off the site.

After all, Etsy was designed as a marketplace for "the handmade." The whole point is that the site offers a way for individual makers to connect with individual buyers. But trying to keep up with orders on her own was threatening to turn Johnson's business into a one-woman sweatshop. Etsy rules allow "collectives," but that's a vague and unbusinesslike term. "No one knows what it means," she says. After the holiday crush, Johnson was so spent that she shuttered her store for the entire month of January to recover. She knew that if she wanted to build a

real business, she'd eventually have to scale up production. She wondered if she had outgrown Etsy.

This was a big problem for Johnson, but it was also troubling for Etsy. Today the site attracts 42 million unique visitors a month, who browse almost 15 million products. More than 800,000 sellers use the service. Most are producing handmade goods as a sideline. But losing motivated sellers like Johnson, who are making a full-time living on Etsy, means saying good-bye to a hugely profitable part of its community.

From its start in 2005, Etsy was a rhetoric-heavy enterprise that promised to do more than simply turn a profit. It promoted itself as an economy-shifter, making possible a parallel retail universe that countered the alienation of mass production with personal connections and unique, handcrafted items. There was no reason to outsource manufacturing, the thinking went, if a sea of individual sellers took the act of making into their own hands—literally.

THE APPROACH WORKED well enough to establish the startup. Etsy makes money from every listing (20 cents apiece) as well as every sale (a 3.5 percent cut). It has been profitable since 2009, and in July 2012 year-over-year sales were up more than 75 percent. Not bad for a retailer selling mostly non-essential products during one of the most sluggish chapters in the history of American consumer spending.

But now Etsy finds itself at a crossroads. Sellers like Johnson, reaching the limits of what the service allows (as well as what it can do for them), are being forced to consider moving on. Meanwhile, the hobbyists and artisans who make up the rest of the marketplace still value Etsy's founding ethos—that handmade items have an intrinsic value that should be celebrated and given a forum outside of traditional retail.

How to reconcile these competing visions of what it means to be an Etsy seller isn't clear. While the site wants to remain an accessible entry point for newbies, it doesn't want the narrative arc for successful sellers to arrive at the inevitable plot point: "And then I started a real business."

To try to deal with this, Etsy has begun implementing a host of changes. Some are simple, like a proprietary payment system

WIRED asked four Etsy sellers to create custom letterforms for this story's title and drop caps. The doily (previous spread) was crocheted by Ann Mensch, a 69-year-old great-grandmother from Bellville, Texas.

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Etsy doesn't want its successful sellers to arrive at the inevitable point: "And then I started a real business."

designed to work better on mobile devices. Other ideas on the table involve revising seller policies—embracing such previously verboten options as remote employees—to hang on to booming “independent creative businesses” (Etsy’s new buzz phrase). Boldest of all, the company now plans to offer its community the option of integrating into the mainstream retail economy, including a pilot program that will soon bring Etsy goods to the shelves of nationwide home-design chain West Elm (owned by Williams Sonoma).

While many of these changes have not been formally implemented or even announced to the Etsy community, there’s already hand-wringing in some quarters about Etsy losing its core values. The question becomes: Can Etsy loosen its ideological vise to accommodate the Terri Johnsons of the world without alienating the handcrafters who made it popular in the first place? Or, to put it another way: Can a marketplace that made its name as a righteous alternative to business as usual go pro without losing its soul?

ETSY WAS LAUNCHED by a small group of twentysomething techies who had drifted into the orbit of GetCrafty.com, a forum-driven site that had become a hub of the DIY community. Foremost among the founders was Rob Kalin, then 25. As the company’s CEO, Kalin was disconcertingly charismatic, harboring no doubts about his ability to bend the world to his vision. Invaluable as such conviction can be to a startup, Kalin often came across as less interested in business than in ideology. “I see Etsy as an art project,” he told me in a 2007 interview for *The New York Times Magazine*. “I speak to people in the business world and the technology world, but I don’t admire them,” he later told *Inc.* magazine (allegedly while pointing an 8-inch combat knife at the reporter). Kalin saw Etsy as a cultural movement that could revive the power and voice of the individual against the depersonalized landscape of big-box retail.

Kalin’s idiosyncrasies didn’t thwart the growth of his business, though. By 2011 Etsy had swelled to more than 160 employees, moved to spacious new digs in Brooklyn’s Dumbo neighborhood, and had more than 400,000 sellers using the site. Kalin appeared on Martha Stewart’s television show (as did, in time, many Etsy sellers). “He was very principled,” says Matthew Stinchcomb, the company’s first nonfounding employee and now its VP of branding and social responsibility. But at times that meant “he would not focus on what was best for the sellers if it meant compromising his personal ideology.” Kalin positioned himself as the living, breathing

incarnation of the Etsy brand. “I am actually trying to curate my entire life pretty much with handmade stuff,” he told TechCrunch founder Michael Arrington in an interview at Davos in 2009.

Last year the board decided to replace Kalin; Fred Wilson of Union Square Ventures (an early investor in Etsy) characterized the move as a case of a founder’s vision clashing with the realities of a growing business. (Kalin declined to comment for this story.) Their choice for the new CEO: then-CTO Chad Dickerson, who had come from Yahoo in 2008. Dickerson, 40, quickly concluded that some major changes were in order.

First, Etsy couldn’t keep losing ambitious sellers and forgoing future revenue. Dickerson saw a solution in improving the basic UI—making it easier for sellers to sell. In his three-year tenure, he’d already more than quadrupled the size of the tech team with that in mind.

Other shifts may sound like semantics but could have a profound impact on the community. For example, Etsy has decided to allow sellers to self-identify as “designers”—meaning they can outsource some of their production work. Rules that once limited working with outside vendors or employees are being systematically reconsidered. “We’ve missed out on a whole piece of creativity,” says Lauren Englehardt, who oversees policy matters for the company, “which is people who design something but maybe don’t have the means to produce it themselves—things that need specialized equipment or a lot of people with specialized skills.”

The changes are a work in progress—“We’re still figuring out how to express it in policy language,” Dickerson says—but the immediate upshot is an effort to resolve borderline cases in ways that keep successful sellers on the site. The front line of enforcement is the community itself, users who flag a given shop for insufficiently handmade behavior. But if the shop’s practices are deemed to be “in the spirit of Etsy,” as Dickerson puts it, the sellers can work with the “Marketplace Integrity and Trust & Safety” department (which recently doubled in size) that helps shopkeepers preserve the spirit of Etsy as they grow. For instance, a seller who shapes wooden kitchen implements can have custom

THE TWO SIDES OF ETSY

The company is now trying to accommodate both the purist handcrafters and the entrepreneurial designer.

Allan Young of Charlottesville, Virginia, upcycles found parts to assemble clocks by hand (top); Maiko Kuzunishi of Kansas City has her bamboo clockfaces laser-cut by the New Zealand-based company Ponoko—a practice Etsy now openly encourages.



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patterns laser-cut by a vendor, but should divulge the process on their shop's About page.

Couldn't the laser cutter be an anonymous factory in China, though? No, Dickerson says, because that would violate "community standards." That seems vague to the point of evasive. The bottom line is that Etsy is devoting more time to what amounts to judgment calls and resolving them in seller-friendly ways. It's an incremental process but a sweeping one—even hard-and-fast Etsy no-no's like drop-shipping could be revisited.

That's a startling departure from the company's original stance, which was described by Kalin in a 2007 Etsy forum post as expressly prohibiting a third party from manufacturing and shipping the seller's original artwork: "The current policy," he wrote, "allows for every kind of digital print except for this one scenario: a third party service provider prints and drop-ships your print directly to your buyer." He went on: "We have taken an issue with this because we feel it distances the producer & the consumer ... this is an important goal of ours."

Dickerson's version of Etsy seeks to close the gap between producer and consumer too. It's just that in his schema, the producer doesn't have to make *everything*. Oh, and the consumer could buy the seller's goods at West Elm, in the mall.

In May, Dickerson announced a \$40 million round of funding. Part of that sum is earmarked for international expansion, but a good chunk will bankroll efforts to make Etsy more business-friendly.

"We've come to understand that many Etsy sellers are business-people," he says, "and want to grow their businesses." One example of the improved UI is the direct-checkout payment option, released in June and designed to work more seamlessly on mobile devices than the old PayPal system. (Mobile users already account for 25 percent of Etsy's traffic.)

But in a much more substantive move, Etsy is also building a wholesale marketplace from a platform called Trunkt (which it bought from indie developer Dev Tandon) that will give sellers tools to get their products "into the world in brick-and-mortar stores, catalogs, and other online stores," Tandon says. Does that mean flash-sale sites like Gilt.com? Tandon says that would be great. Mainstream retailers like J.Crew? It could happen, he says.

West Elm is one place you will definitely find Etsy products. "The customers want this," says West Elm president Jim Brett. And though the

full rollout has yet to happen, Etsy's community seems to have cottoned to the idea too. Those whose work has already appeared in West Elm catalogs as set decoration proudly state so on their pages: "Featured in West Elm, large abstract painting," crows Etsy shop laurenadamsart. By the 2012 holiday shopping season, the chain—with 42 locations in such un-DIY places as Orlando's Mall at Millenia—will start featuring select seller wares. The new Etsy era has begun.

TO THE HANDCRAFTERS whose work made the site popular in the first place, framing these developments as what the community wants seems a bit disingenuous. "It sounds like it benefits Etsy," seller Ryan McAbery allows, but emphasizing business-building will "change the vibe." McAbery is an interesting case: She joined Etsy in 2006 and became an early superstar seller, making Scrabble-tile pendants. She was featured in the "Quit Your Day Job" series Etsy runs on its blog. She was also working 80 to 100 hours a week. Eventually she downsized herself, selling off her hit product line and returning to a more art-oriented practice. She expresses no ill will toward the company but seems ambivalent at best about the idea of catering more to entrepreneurs than makers: "Do they really think Etsy being bigger will help small artists?"

Stinchcomb, Etsy's brand VP, insists the answer is yes. "As we get bigger and have more awareness, that helps every seller," he says. "If we want to try to do something like change the economy, that takes scale." He means scale for Etsy, of course, but for sellers too: People who stick around and use a more entrepreneur-friendly Etsy to build their businesses will ultimately have more impact on the marketplace. Ryan McAbery may not be interested in that, but Etsy is betting that a lot of other community members are.

Maybe so. But scanning Etsy's forums reveals that plenty of shopkeepers are troubled by the new big-business bedfellows, whether they be onsite vendors or chains like West Elm. To take one example, seller BeaG recently posted in the Old Time Etsy forum that instead of being a safe haven for makers, the site has become a part of the problem. "I miss the spirit of the HANDMADE MOVEMENT," she wrote. "You know, Etsy as opposed to those big multi-million-dollar companies that exploit their staff, pollute the environment, and disrespect their own customers, all for the sake of making even more money. Guess what: Etsy became one of

Jeff Grant of Kalispell, Montana, hand-hews his Adirondack chairs (top) out of fir, larch, pine, and spruce; architect Ben Mickus of Alameda, California, sends his felt and bent-metal frame designs to third-party fabricators, calling himself a "designer" rather than a "maker" on his profile page.



The crocheted purse (top) is made by Jessica van den Heuvel of Amsterdam, a solo Etsy crafter; the canvas-and-leather satchel is sewn by Roy Katz and Tanya Fleisher (who operate their Chicago workshop, Winter Session, with two employees). For large orders, the pair work with local manufacturers.