

IDENTIFYING OPPORTUNITIES TO INCREASE PROFITS AND PROFITABILITY IN ENSURING ECONOMIC STABILITY: A CASE STUDY OF ETSY

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Abstract

The purpose of this paper is to evaluate profitability and provide indicators on how it can be improved: using Etsy as a case study. Considering that Etsy has stable revenue growth, successful operational structure and sustainable business model, it can provide information on enhancing profitability. It is believed that profit is the main driver of a business, as it is necessary for a company to survive in the long-run. This article illustrates the financial status of Etsy, using horizontal and vertical methods and profitability ratios which include the factors effecting company's profit. Furthermore, it examines the efficiency of a company's activity, potential risks, competitiveness and continuity.

Keywords: Profit, financial ratios, Etsy, net income, operational costs, business performance, revenue, profitability of assets, profitability of equity.

Annotatsiya

Ushbu maqolaning maqsadi rentabellikni baholash va uni oshirish bo'yicha ko'rsatkichlarni aniqlashdan iborat bo'lib, bunda Etsy kompaniyasi misol sifatida tahlil qilingan. Etsy barqaror daromad o'sishi, samarali operatsion tuzilma va barqaror biznes modeli bilan ajralib turadi, bu esa rentabellikni oshirish imkoniyatlari haqida muhim xulosalar chiqarishga yordam berdi. Foyda biznesning asosiy harakatlantiruvchi omili hisoblanadi, chunki u kompaniyaning uzoq muddatli faoliyat yuritishi uchun zarurdir. Mazkur maqolada Etsy kompaniyasining moliyaviy holati gorizontaal va vertikal tahlil usullari hamda rentabellik koeffitsiyentlari orqali baholanadi, shuningdek, kompaniya foydasiga ta'sir etuvchi omillar aniqlanadi. Bundan tashqari, korxonalar faoliyati samaradorligi, ehtimoliy risklar, raqobatbardoshlik darajasi va uzluksiz faoliyat yuritish imkoniyati ham tahlil qilinadi.

Kalit so'zlar: foyda, moliyaviy koeffitsiyentlar, Etsy, sof foyda, operatsion xarajatlar, biznes samaradorligi, daromad, aktivlar rentabelligi, kapital rentabelligi.

Аннотация

Цель данной статьи заключается в оценке рентабельности и разработке показателей по её повышению на примере компании Etsy. Учитывая стабильный рост выручки, эффективную операционную структуру и устойчивую бизнес-модель Etsy, компания может служить примером для анализа возможностей увеличения прибыльности. Прибыль рассматривается как основной движущий фактор бизнеса, поскольку она необходима для долгосрочного функционирования компании. В статье анализируется финансовое состояние Etsy с использованием горизонтального и вертикального методов анализа, а также коэффициентов рентабельности, позволяющих определить факторы,

влияющие на прибыль компании. Кроме того, рассматриваются эффективность деятельности компании, потенциальные риски, уровень конкурентоспособности и перспективы непрерывности деятельности.

Ключевые слова: прибыль, финансовые коэффициенты, Etsy, чистая прибыль, операционные расходы, эффективность бизнеса, выручка, рентабельность активов, рентабельность капитала.

INTRODUCTION

Due to the extension of online services, technological advancements have presented significant challenges for traditional stores, requiring them to adapt to the new environment and stay connected with ongoing technological advancements. As a result new business models have emerged, e-commerce being a prominent example. One such example is Etsy, an e-commerce platform that has become globally well-known in recent years, where independent creators and small businesses with thousands of buyers are connected.

In the context of increasing profitability, online platforms like Etsy play a pivotal role in creating new opportunities for growth. Etsy, in particular, stands out as a platform that allows small businesses and independent creators to reach a global market with relatively low operational costs. One indicator that makes Etsy stand out among other mass-market e-commerce companies is that its model is based on the sale of handmade, vintage, and craft supply items. Although the company has experienced consistent revenue growth, its net profit has shown significant volatility in recent periods. This disparity between rising revenue and fluctuating profit demonstrates critical profitability opportunities.

This article illustrates the profitability ratios of Etsy using different methods, analyzes the financial condition and gives indicators on enhancing them.

LITERATURE REVIEW

Profitability analysis is the systematic evaluation of a company's ability to generate profit relative to its expenses, investments, and assets. It reveals which specific business activities, products, services, or customer segments contribute most to the bottom line.

According to Robu, I. & Georgescu (2000), the analysis based on the profitability ratios highlights the performance of the company as a ratio between the effects (benefits) obtained and the efforts involved in obtaining them. Profitability can be defined as “the ability of an enterprise to make a profit by using the factors of production and capital, regardless of their origin”¹.

However, a clear understanding of the concept of profitability does not automatically translate into the ability to enhance it. As Alarussi and Alhaderi (2018) note, a majority of companies recognize the importance of profitability but often lack the knowledge to identify the specific factors that drive it.² This gap in understanding

¹ Robu, I. & Georgescu, I., 2000. Profitability and its role in business management.

² Alarussi, A.S. & Alhaderi, S.M., 2018. Factors affecting profitability in Malaysia. *Journal of Economic Studies*, 45(3), pp.442-458.

can lead to counterproductive strategies, especially during times of crisis, where poorly conceived risky measures can worsen a company's financial status instead of preserving it.

Etsy differentiates itself from its competitors through its marketing of its strong connections to the contemporary independent/DIY craft scene, thus ensuring that makers find likeminded buyers and vice versa. Etsy carefully navigates its position as mediator, sliding into the background when wanting to emphasize the direct connection between makers (sellers) and buyers, and other times pushing the platform into more visible territory in order to highlight the feeling of community among users.¹

For platforms like Etsy, building a unique brand and offering distinct products is crucial to attracting loyal customers. This differentiation drives growth and opens up opportunities for higher-margin sales, boosting the platform's profitability.

This study will apply the theoretical frameworks of profitability analysis and strategic differentiation to Etsy's case, examine the financial impact of its business model, and evaluate the efficiency of its resource utilization.

METHODOLOGY

In order to carry out the study, both qualitative and quantitative research methods were used, including the collection and processing of available information and the interpretation of the research data.

Moreover, research techniques are based on performance metrics on income statement.

1. Comparative Analysis: for the purpose of identifying the opportunities to enhance a business's ability to make profit, Horizontal and Vertical analysis are conducted in the research, as comparison allows to interpret numbers easier and find patterns in a company's financial indicators.

2. Case Study Approach: Etsy is chosen as a case study because of its stable increase in revenue over the years. By measuring necessary financial ratios for profit management, the company's profit potential is analyzed.

3. Profit Ratio Analysis: Gross profit margin, operating profit margin, net profit margin are calculated to evaluate the company's potential for financial gain.

The database is based on the information provided by Etsy company in their annual integrated report in a period of five years (2020-2024).

ANALYSIS AND RESULTS

If we look into Figure 1, we can see the income statement components of Etsy in 2022, 2023 and 2024. The bar chart illustrates the insignificant increase in net sales, gross profit and operating profit of the company over the years, whereas the indicators of net profit, operating expenses and COGS show a negative trend (Figure 1; Table 1).

¹ ABRAHAMS, S.L., 2008. Handmade online: The crafting of commerce, aesthetics and community on Etsy.com, The University of North Carolina at Chapel Hill.

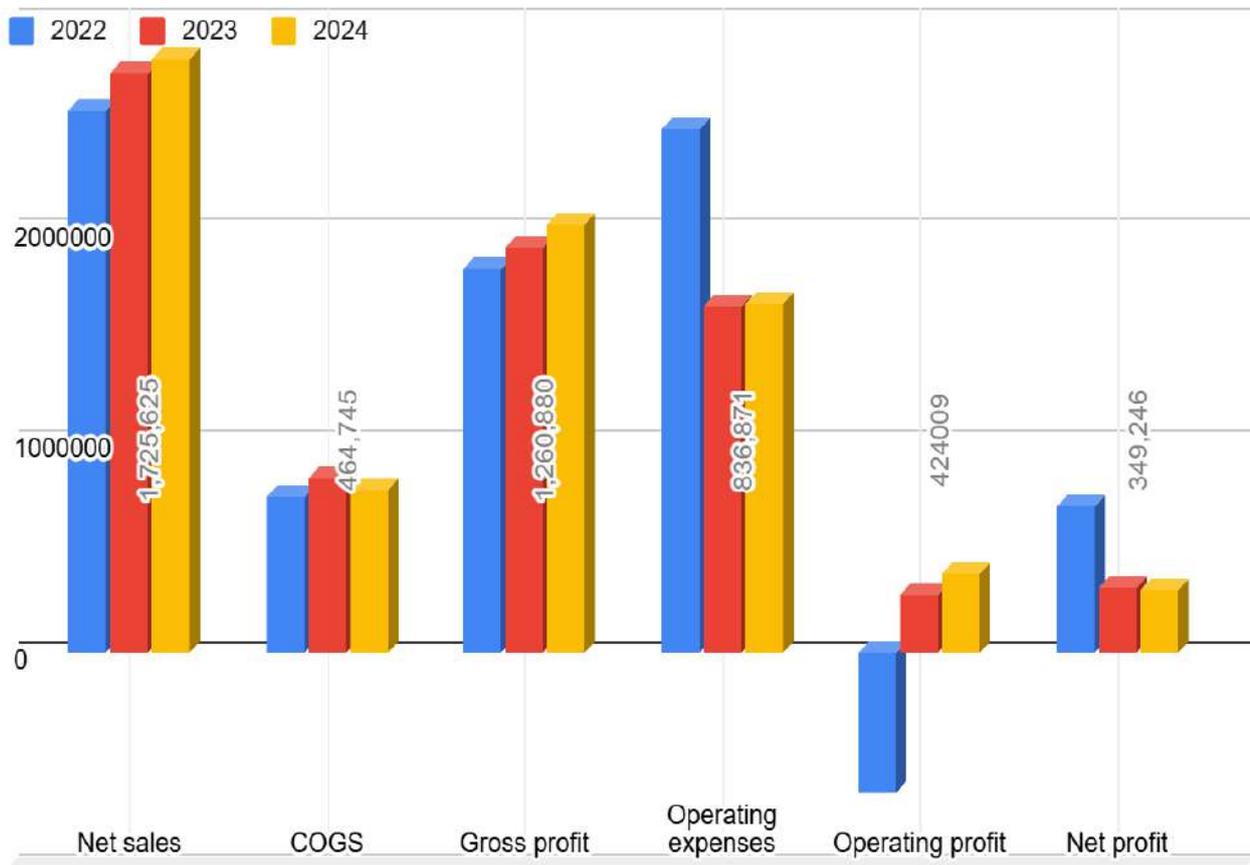


Figure 1. Income statement components of Etsy (2022-2024)¹

Table 1. Horizontal analysis of Profitability Components²

Indicators	2020	2021	Change	in %	2022	Change	in %	2023	Change	in %	2024	Change	in %
Net sales	1,725,625	2,329,114	603,489	35.0	2,566,111	840,486	48.7	2,748,377	1,022,752	59.3	2,808,332	1,082,707	62.7
COGS	464,745	654,512	189,767	40.8	744,592	279,847	60.2	828,675	363,930	78.3	774,554	309,809	66.7
Gross profit	1,260,880	1,674,602	413,722	32.8	1,821,519	560,639	44.5	1,915,672	654,792	51.9	2,033,778	772,282	61.2
Operating expenses	836,871	1,208,870	371,999	44.5	2,480,079	1,643,208	196.4	1,639,861	802,990	96.0	1,653,570	816,699	97.6
Operating profit	424,009	465,732	41,723	9.8	-658,560	-1,082,569	-255.3	275,811	-148,198	-35.0	379,592	-44,417	-10.5
Net profit	349,246	493,507	144,261	41.3	694,288	345,042	98.8	307,568	-41,678	-11.9	303,281	-45,965	-13.2

¹ Etsy, 2023. Etsy Inc. 2022-2024 Income Statement. [online] Available at: <https://investors.etsy.com/sec-filings/integrated-annual-report>

² Source: Author's calculations based on Etsy Inc. Annual Reports (Form 10-K), 2020-2024. Available at: <https://investors.etsy.com/financials/sec-filings>

The horizontal analysis in Table 1 was used to assess the absolute and percentage changes in key income statement items over the five-year period. 2020 was selected as the base year to measure all subsequent changes. This technique is crucial for identifying trends in revenue growth, cost behavior, and profit movement, highlighting areas of accelerating expansion or concerning inflation. The analysis shows that net sales has had a consistent growth over the years, increasing by 62,7% in 2024 compared to 2020, reflecting Etsy’s expanding marketplace reach. However, operating expenses surged dramatically in 2022, rising by 196,4% compared to the base year, which directly led to a negative operating profit of -658,560 USD in 2022. Net profit also peaked in 2022 (reaching 694,288 USD), before declining in following years, indicating challenges in translating revenue growth into consistent bottom-line performance (Table 2).

Table 2. Vertical analysis of Profitability Components¹

Indicators	2020	% of net sales	2021	% of net sales	2022	% of net sales	2023	% of net sales	2024	% of net sales
Net sales	1,725,625	100.0	2,329,114	100.0	2,566,111	100.0	2,748,377	100.0	2,808,332	100.0
COGS	464,745	26.9	654,512	28.1	744,592	29.0	828,675	30.2	774,554	27.6
Gross profit	1,260,880	73.1	1,674,602	71.9	1,821,519	71.0	1,915,672	69.7	2,033,162	72.4
Operating expenses	836,871	48.5	1,208,870	51.9	2,480,079	96.6	1,639,861	59.7	1,653,570	58.9
Operating profit	424,009	24.6	465,732	20.0	-658,560	-25.7	275,811	10.0	379,592	13.5
Net profit	349,246	20.2	493,507	21.2	694,288	27.1	307,568	11.2	303,281	10.8

The table in Table 2 presents a vertical analysis of Etsy’s income statement, with all the items calculated as a percentage of net sales from 2020 to 2024. As mentioned above 96,6% increase in operating expenses in 2022 was mostly because of Etsy’s long-term strategic plan:

¹ Source: Author’s calculations based on Etsy Inc. Annual Reports (Form 10-K), 2020-2024. U.S. Securities and Exchange Commission (SEC). Available at: <https://investors.etsy.com/financials/sec-filings>

The dramatic increase in operating expenses in 2022, which led to a negative operating margin, aligns with Etsy's strategic acquisition of Depop and Elo7 for 1.6 billion USD (SEC Filing, 2021)¹. As noted by Lunden (2021) in TechCrunch, this was part of Etsy's strategy to expand beyond its core marketplace, incurring significant one-off integration costs².

Furthermore, gross profit margins have remained stable (69,7% - 72,1%), meaning the company has strong control over the costs. Operating profit margin recovered to 10% and 13,5% in 2023 and 2024 respectively, and by 2024 operating expenses stabilized to 58,9% of sales, particularly in selling and marketing, which reflects ongoing investments in user growth and platform visibility. The pressure on marketing costs can be linked to the highly competitive nature of the e-commerce landscape, where platforms must constantly invest in customer acquisition to maintain growth (Kumar et al., 2020)³.

1. Gross Profit Margin

$$\text{Gross Profit Margin (\%)} = (\text{Gross Profit} \div \text{Net Sales}) \times 100$$

Gross profit margin shows the money a company makes after accounting for its business costs. It is typically expressed as a percentage of sales and is also referred to as gross margin ratio.

2. Operating Profit Margin

$$\text{Operating Profit Margin (\%)} = (\text{Operating Profit} \div \text{Net Sales}) \times 100$$

A company's operating margin is the amount it makes on every dollar of sales after deducting production costs like variable costs but before accounting for interest and taxes. A higher ratio in an operating margin is generally better, as it indicates the company is efficient in its operations and is good at turning sales into profits. As noted by Fraser & Ormiston (2016), the operating profit margin is a key indicator of managerial efficiency, as it excludes the effects of financing and tax structures.⁴

3. Net Profit Margin

$$\text{Net Profit Margin (\%)} = (\text{Net Profit} \div \text{Net Sales}) \times 100$$

Net profit margin (or net margin) is a measure of how much profit a business generates. It shows how much of each dollar a business earns actually translates into profit. The calculation and interpretation of profitability ratios, such as the net profit margin, are critical for assessing a company's financial health (Gibson, 2013)⁵.

CONCLUSION AND SUGGESTIONS

This article demonstrates how to analyze a company's profitability in the case of Etsy, through horizontal and vertical methods and key financial ratios. Financial calculations reveal that even though the company is achieving consistent revenue

¹ SEC Filing, 2021. Etsy Annual Report 2021. [online] Available at: <https://www.sec.gov> [Accessed 26 November 2025].

² Lunden, I., 2021. Etsy buys Depop for \$1.6B in a bid to expand its marketplace. TechCrunch. [online] Available at: <https://techcrunch.com/2021/06/21/etsy-depop-acquisition/> [Accessed 26 November 2025].

³ Kumar, V., Shah, D. & Verma, R., 2020. E-commerce: Marketing strategies and customer acquisition costs. Journal of Business Research, 116, pp. 25-35.

⁴ Fraser, L.M. & Ormiston, A., 2016. Understanding Financial Statements. 10th ed. Harlow: Pearson Education.

⁵ Gibson, C.H., 2013. Financial Statement Analysis and Security Valuation. 4th ed. New York: McGraw-Hill Education.

growth, its profitability has been volatile. It is reasonable to assume that strategic decisions and external market pressure are the main reasons.

Key insights include that revenue growth has been good while net sales is increasing significantly year-over-year. A significant impact on the profitability could be through the company's strategy of acquiring Depop and Elo7 in the long term, even though it led to a dramatic increase in operational expenses and reduced the amount of operating profit. High marketing and operational costs exist, due to the competitive e-commerce dynamics and continuous investment in customer acquisition. In summary, a company should optimize cost structures - increase efficiency and profitability without harming growth, improve its operational efficiency and monitor profitability ratios regularly.

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