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# Seller Handbook



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## Tips for Understanding Your Profits and Planning for Growth

Make informed pricing decisions with a clear understanding of your bottom line, so you can experiment,



optimize, and invest in your business' growth.

by Etsy Staff

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*Note: As an Etsy seller, pricing is at your sole discretion. This means that you are responsible for making your own pricing decisions and are free to set prices as you wish. That said, remember there are also legal considerations to be aware of around pricing and discounting. Sellers cannot mislead consumers on discounted prices. The original price must be a true price that was in practice for a*

*substantial amount of time, so, for example, you can't artificially increase a price and cut it down just to make it look like you're running a sale.*

Sometimes growing means investing more money into your business. But how can you be confident you're funneling your hard-earned funds into the right places?

That's the question Alba Bordes, owner of Helsinki-based shop Made of Sundays, faced when she started selling wall decals on Etsy. Initially, she had just a few designs in her shop, which she printed at home with her laptop and a small plotter. "I'm not keen on making big investments," she says. "But I needed to increase production to make enough money to live without losing the handmade side of my business." Her solution? Investing in equipment that would let her keep production in-house.

When you're ready to grow, like Alba, tracking your expenses will give you a clear idea of your business's financial health. Once you have a sense of how much money is coming in and going out, you can start finetuning your approach and update your profit margins in ways that will best support your ambitions for the future.

Ready to grow? To start developing a pricing strategy that aligns with your goals, make a copy of this handy [worksheet with tips for pricing your listings](#) and follow the steps below.

## **Track your expenses and add up all your costs**

Keeping track of your expenses throughout the year makes it easier to understand your overall costs—and to calculate the price and profit margin for each item you sell.

Remember to regularly review your expenditures and experiment with adjusting your prices to keep your rates in sync with your evolving shop and market conditions.

## 1. Add up your production costs

Take a look back at your business and all the expenses that you incurred over the past year in making your products. Setting a defined time span, such as January through December 2023, can help you get a clear picture of where your money went over the course of the year, with all the inevitable ebbs and flows.

To figure out your production costs, consider everything that you need to produce your items. Expenses will likely fit into of these four categories:

- **Raw materials:** What materials do you use? How much does each material cost per item? These are the major supply materials used in the production of your items. If you're a vintage seller, how much did you pay for the original item?
- **Office supplies and materials:** These are smaller items that might be used in the production of materials that don't have a significant cost per item (like thread, needles, and paint), as well as office supplies (like printer paper, ink, and shipping materials).

- **Non-recurring expenses:** These are costs that likely last multiple years. You'll want to account for their cost in your business by calculating an estimated cost per year. (To determine a cost per year for these items, let's say, for example, each one has an average lifespan of seven years. Divide the total dollar amount spent for these items by 7 to get the per-year cost.)
- **General expenses:** These are your remaining business and general administrative expenses.

## 2. Add up your yearly overhead costs

Think of your overhead costs as your business operating expenses, aside from wages and supplies. To determine your overhead, consider these questions:

- **Workspace:** Do you rent a studio, office, or other workspace? What's the rent?
- **Hiring help:** Do you pay someone to help you? How much?
- **Business investments:** What other investments, such as product development or research, do you plan on making this year?
- **Maintenance:** How much does it cost to replace, clean, or maintain tools or machinery throughout the year?
- **Fees:** Do you pay fees for monthly subscriptions or services?

## 3. Add up your marketing costs

Tally up all the money you put towards promoting your shop. To jog your memory,

take a look at these common marketing expenses:

- **Promotions and offers:** Do you offer discounts, promo codes, targeted offers, or run sales? What about a sales event? How much do you spend on each?
- **Advertising:** Do you invest in Etsy Ads or other forms of advertising?
- **Discounted or free shipping:** How much do you spend on offering competitive or free shipping?

*For more details on effective marketing strategies, read our article [Tools for Growing Your Business—and How to Fit Them Into Your Pricing Strategy](#).*

#### **4. Account for your labor**

Though the costs associated with your time and effort might not feel as straightforward to account for as supplies with an off-the-shelf price tag, it's an essential factor in determining your prices and growing your business in a sustainable way.

Consider these questions when calculating your labor costs:

- **Tasks:** What tasks are required to produce or prepare an item? How long do they take?
- **Time and effort:** How much time does it take to purchase, source, design, and create your wares? How much effort does it take to prepare, clean, photograph, or otherwise ready your items?

- **Shipping and fulfillment:** How much time and effort does it take to pack and ship your items? This includes trips to the post office.
- **Wage:** What would be a fair wage to pay yourself? If you have employees, how much do you pay them?

## 5. Estimate your seller fees

How much do you spend on fees to sell your products, whether on Etsy, in brick-and-mortar shops, or elsewhere? Determining an average “commission rate” can help you set a consistent price across all the places you sell.

## 6. Set your desired markup

Once you have a clear sense of your production and business costs (also known as “cost of goods”), you can choose a suitable **markup**—the amount you add to those base costs to determine the listing price. Homing in on a markup that’s tailored to your goals and circumstances is an important step, since this will influence how much money your shop can bring in and, in turn, fuel all sorts of other business decisions. To determine your markup, try tinkering in the optional pricing worksheet and slotting in different amounts.

Or, you can think in terms of **your gross profit margin**. To calculate this, subtract all of your “cost of goods” from the listing price. Divide that number by the sale price (revenue) and multiply by 100 to generate gross profit margin as a percentage.

Here’s the formula to calculate your gross profit margin:

*(Revenue - Cost of goods) / Revenue x 100 = Gross profit margin*

Remember, markups and profit margins vary widely by industry, market, and other factors. It's common for a new business to start with a lower profit margin, at first, while spending more on customer acquisition (often through advertising and discounts), and then to see an increase in profit margins as they grow. Doing your research and drawing from your own expense tracking and observations will help you land on an amount that makes sense for your shop's particular circumstances.

## **7. Refresh your prices**

Once you've landed on a suitable markup and understand your gross profit margin, you're ready to update (or set) the price for each product you sell. Remember, your prices are not set in stone and they'll keep evolving alongside your business. Keep tracking your expenses, testing and experimenting with your markup, learning from the results, and making tweaks accordingly.

## **Plan for the future**

Now that you've tracked your expenses and done plenty of math to determine a pricing strategy that works for you, get ready to put what you've learned into action. Equipped with this information, you can feel confident assessing your business' current status and working towards future milestones, goals, and investments.



## Shape your goals

Whether you're hoping to hire an employee, purchase new machinery, or rent a roomier workspace, take a look at your business and decide what kind of investment would most help you grow. Then, attach a financial figure to that investment: How much will it cost to hire an employee? What's the going rate for that new piece of equipment? How much is the rent for a bigger studio? For example, Alba made a list of the equipment she needed and set aside a little bit of money each month until she had enough to make her purchase.

## Pinpoint investment costs

Investing in a piece of new equipment? From a business standpoint, know that you may not need to pay off the entire machine in one year. Look into your options for financing upfront to pay for the equipment (like a loan or credit card). You may be able to spread out payments based on the usable life of the equipment.

An example: Say you want to purchase a \$2,000 sewing machine that will last seven years. The cost to you for one year of that new machine would be \$286 ( $\$2,000 / 7 = \$286$  a year). So, you would need to make at least an additional \$286 a year to make the investment worthwhile. If the revenue you're currently expecting to make isn't enough to cover your planned investment, you might adjust your prices, look for ways to reduce costs, or brainstorm ways to accelerate sales.

Note: Before you make a big investment, consider speaking to a financial advisor or accountant to make sure you have everything in order.

### **Get ready to grow**

Getting a firm grasp on your expenses can help you plan ahead and feel confident when growing your business and reaching towards your goals. That's what worked for Alba's shop, Made of Sundays. "A new machine helps me to increase efficiency and create new products," Alba says, "which eventually will pay for the investment."

Crunching numbers might feel like a chore, but looking at where your business has been can help you make smart investments to get to where you want to be.

**Return to the [Ultimate Guide to Pricing](#)**



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