Have Traditional Auction Houses Been Affected by Online Ones?:
The Case of Phillips and Paddle8

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Have Traditional Auction Houses Been Affected by Online Ones?  
: The Case of Phillips and Paddle8

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1. Introduction

When we think about the price of artworks, fluctuation in demand may not result in changes in supply, but will inevitably lead to changes in price. According to W. Stanley Jevons’s marginal utility theory, market prices are to be explained in terms of demand rather than supply-side factors.\(^1\) With this theory, we can classify three factors which affect the price of a work: the type of item (including art style and physical condition), the reputation of the artist, and the people who have owned it before. If we leave out the item itself, this market can be called a “two-sided market,” in which both the bid and asked for sides are necessary.\(^2\) Both buyers and sellers guaranteed to be able to complete transactions. Those factors also directly affect the current situation of the auction houses. Furthermore, the composite of pricing scripts and reference values is effective in constructing an economic reality that producers, distributors, and consumers of art can grasp, understand, and respond to.\(^3\) On the other hand, according to Michael Plummer, former chief operating officer of Christie’s Financial Services and now a principal in the art advisory company Artvest Partners, “As art prices go up and there’s growth in the market, margins go down inversely.”\(^4\)

Even though several art market reports predict that art market confidence will keep taking a plunge, there is always a strong demand for high quality art and collectibles. This paper is going to analyze how traditional auctions have been affected by online auctions by doing a case study of the Phillips auction house and comparing it to the online auction house, Paddle8. Choosing specific auction houses is necessary because of the fact that there are so many different auctions.

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Phillips is taking a strong hold over the middle market and engaging emerging collectors by offering works by artists who are new to the secondary market, often with more approachable prices. Since the online art market predominantly represents the lower end of the market, classified as being pieces sold for $10,000 or less, selecting Phillips is reasonable. Moreover, Phillips’ Contemporary art department is known for focusing on younger artists, which represents lower prices than other areas. Specifically, to compare in a fair way in terms of price and genre of artworks, Phillips’ Contemporary Art Day Sales in New York from 2006 to 2016 will be the major research material.

A New York-based online auction house, Paddle8, on the other hand, is ranked 5th within a total of 40 online auction platforms and is the highest ranked pure-play online auction company. It is an online collecting destination, focusing on the middle market which is from $1,000 to $100,000 per piece. It also has introduced an online valuation service that provides free auction estimates within five business days, making it simple to both buy and sell works.

After analyzing the ten years of Phillips catalogues, I saw that the year of 2011, when Paddle8 was established, was the fulcrum of the research. In that year the number of lots and artists in Phillips’ catalogue was cut in half, and correspondingly, the average price of the works became higher than before November 2011. I focus, therefore, on this year in this study. Furthermore, to get more accurate outcomes, the prices of Andy Warhol and Richard Pettibone’s prints will be analyzed. These prints are accessible through both platforms, so they can serve as a control.

With the analysis of the case study and the interviews with experts from different auction houses and the online art market, this paper will show whether the brick-
and-mortar auction markets have been affected by online ones. The limitation of the case study here is that it is hard to generalize the market as a whole, since there are thousands of factors influencing auction house strategy and no way to control everything. Nevertheless, the purpose of this paper is explore possible relationships between the simultaneous trends in these two auction houses and show possible changes in trends in the art market.
2. **The Historical Development of the Online Market**

While auctions are traditional and well-studied economic mechanisms, the popularity of internet auctions has prompted wide interest in various respects. The more Internet auction platforms arise, the more prominent the position for them in the art world becomes. In 2013, UK-based the-saleroom.com saw its best year to date, hosting 7,248 auction catalogues, 3,147 live auctions and selling over £74 million online. LiveAuctioneers.com, meanwhile, one of the most important online auction platforms, recorded its best year ever in 2013, with gross online sales of $222.5 million. Online art market sales reached $3.27 billion in 2016, up 24% in the last 12 months, despite a decrease in global art auction sales in 2015.

Online auctions use a front-end user interface. “Front-end” means anything that the client can see, and “user interface” indicates something generated by front-end software. The software provides a user-friendly interface as a means of viewing data or collecting data that the client wishes to input. Unlike traditional auctions, which all have a similar format, many different types of online auction models have evolved in recent years: Online-only auctions, Bricks and clicks, and Online auction aggregators. Online-only auctions revolve around a digital context only, such as Paddle8 and Auctionata. There is usually no public access to the works prior to the sale. Bricks and clicks is a business model where both live and digital auctions occur at the same time, such as Sotheby’s BIDnow and Christie’s LIVE. They hold an option to bid online and generally artworks are available for view in person prior to the sale. Online auction aggregators are founded by traditional auction houses without and in-house online platform. The aggregators provide an online bidding

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platform for traditional auctions. Invaluable, LiveAuctioneers and Bidsquare are representative examples.

The online art market is growing at a very fast pace, more than 24 percent annually, and is expected to reach $9.58 billion in sales over the next five years. In addition, per the 2016 Hiscox Online Art Trade Report, 92% of online art buyers expect to buy more or the same amount of art online in the next 12 months. Online art has been up 24% over the last 12 months. Recently, even old-line institutions such as Christie’s International PLA and Sotheby’s Holdings Inc. have been holding online auctions. In August 2015, Invaluable announced that it would become Sotheby’s core technology partner for online bidding. The partnership has seen the number of collectors bidding online increase nearly 55%, leading to a 35% increase in the value of successful bids. Furthermore, it is reported that web traffic from Sotheby’s preferred client program doubled in 2013, and online bids above $1 million have become a regular occurrence.

E-commerce facilities are increasing as well, such as Invaluable, iGavel, and ATG’s thesalermo.com. In particular, Invaluable saw sales hosted through their site more than double in 2015. They had gained over 4,000 auction house members after signing a partnership with eBay for access to their member site in 2014. As we can see in these situations, the online area of the art world has become more certain. They are not just the technology behind the traditional auction houses, but have become their own brands in their own right.

Even though online auctions have grown, it is apparent that there are several problems that online auctions are struggling with. One of the difficulties with online auctions is that people have to use them a few times to understand how the model works, and each platform is really different. Moreover, there are some disadvantages of buying art online. The first is that potential bidders cannot see the physical work before their bid. Related to this, users are also worried about the authenticity of the work. This problem brings a question about the reputation and trust of online auction platforms. In addition, lack of information, logistic aspects of the online transaction and repayment plans are brought up as problems of the online auction market. Nevertheless, as the younger generation has more interest in online buying platforms, no one can deny the already-established online auction market in the art world.

3. **Previous Studies of Offline / Traditional General Market**

As in any action, a price is set by competitive bidding between auctioneers acting as agents for buyers and sellers. Regardless of the type of auction, there is an orderly way and rule to trade art works.

(1) The first bid or offer at a given price has priority over any other bid or offer at the same price.

(2) The high bid and low offer ‘have the floor.’

(3) A new auction begins whenever all the offers or bids at a given price are exhausted.

(4) Secret transactions are prohibited.

(5) Bids and offers must be made in an audible voice.\(^\text{15}\)

In January 2016, art market confidence took a 38% plunge, on the back of increasing doubt about the global economic outlook, together with signs of a slowing auction market.\(^\text{16}\) According to the Hiscox Online Art Platform Ranking 2016, meanwhile, art buyers are still rating the online arms of the traditional auction houses highly, with Christie’s online platform ranked number one and Sotheby’s BIDNOW in fourth place, despite stiff competition from the growing number of pure-play online companies such as Artnet, Paddle8, and Auctionata (**see Appendix 1**).\(^\text{17}\)

Sotheby’s and Christie’s keep their place as the two dominant houses in the auction sector. Their combined 42% share of the auction market has been stable since 2014 (based on their public auction sales only).\(^\text{18}\) Even though they continue their


\(^{17}\) Read, “The Hiscox Online Art Trade Report 2016: Bringing transparency to the online art market,” 13.

dominance in the brick-and-mortar auction area, they have tried to expand their online channels to target global customers as well. Sotheby’s now reaches clients in 180 countries with its digital content, and has seen its online catalogue distribution swell to three million, as compared to one million for the print version. According to Christie’s, online sales have increased in value by 11% year-on-year, with a 10% increase in buyer numbers. Christie’s also reported that 80% of the buyers transacting via its channel in 2015 were new to the auction house.

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4. Background Study results


Now a representative of a brick-and-click auction house, Phillips was founded in London in 1796. Around the late 1990s it expanded its business internationally. In terms of the combined market share among Sotheby’s, Phillips, and Christie’s, Phillips ended up with a 5.5% increase in November 2015, while the others bungled the November auctions in New York.\textsuperscript{21} Phillips has been carving out a niche with younger, emerging artist for years. Their key strategy is taking a strong hold over the middle market and engaging emerging collectors by offering works by artists who are new to the secondary market, often with more approachable prices. They have dedicated expertise in the areas of Art, Design, Photographs, Edition, Jewelry, and Watches and hold sales in New York, London, Geneva, and Hong Kong.

The Contemporary sector of the auction market remains the largest category by value (45 % in 2015, which was the same as in 2014.)\textsuperscript{22} At this point, Contemporary is defined as artists born after 1910. The confidence in the auction market, however, has been influenced by rapidly declining auction sales, which saw a 44% decrease in confidence in January 2016 and a further 7% decline in the last 6 months.\textsuperscript{23} Recent sales of Contemporary art have reaffirmed the negative trend that started in November 2015. The total sale price of the Post-War & Contemporary Evening sales in New York among Sotheby’s, Phillips, and Christie’s was 30.7% lower than November 2015. In particular, Christie’s put it at 41.6% below their sale in November 2015.\textsuperscript{24} At Phillips, on the other hand, the result was 113.7% higher than November 2015.\textsuperscript{25}

\begin{thebibliography}{9}
\bibitem{23} Petterson, “Art Market Confidence Survey,” 1.
\bibitem{25} Ibid.
\end{thebibliography}
Although the base of the US art market has been undermined with China’s market growing quickly, the US has been the largest market in terms of value for the last 20 years. Sales in the US were the best performing worldwide, increasing by 4% over 2015, the third consecutive year of growth, and reaching a high of $27.3 billion, the highest ever total to date.26

In terms of the fact that the online art market predominantly represents the lower end of the market, classified as pieces sold for $10,000 or less, choosing Phillips is reasonable. Furthermore, since Phillips’ Contemporary art department is known for focusing on younger artists which represent lower prices than other areas, this article specifically focuses on Contemporary Day Sales in New York.

As a research method, this paper sorts through ten years of Phillips’ Contemporary Day Sale totals in New York catalogues. After February 29th, 2008, Phillips started to divide this category into Contemporary Art Day Sale and Evening Sale in London. In New York, however, it was still Contemporary Art Part I and Part II. Phillips New York started to call the latter sale Contemporary Art Evening Sale in March, but still there was no so-called Day Sale. After May 2012, it started to name the whole Contemporary Art Day. Moreover, after March 6, 2014, they started to call this Contemporary Art & Design Sale, and on May 15, 2015, Phillips finally started to title the sale 20th Century & Contemporary Art Day Sale.

Meanwhile, in May, 2016, Phillips signed a partnership with Invaluable, which has a lot of buyers from 200 countries around the world. According to Megan Newcome, a Director of Phillips Digital Strategy, “Collectors are increasingly engaging with the art

world online and this initiative is one more step in establishing Phillips as an international leader in auctions and innovation.”


In contrast, for this report, Paddle8 will be used as a standard online auction market to speculate on how online markets affect traditional houses. As an emerging Internet auction house, Paddle8 processes transactions through its website. Paddle8 was established in 2011 to target a niche market. Co-founders, Aditya Julka, Alexander Gilkes and Osman Khan, targeted art, design and collectibles markets through timed auctions, private sales and charitable sales in the US and UK. Catering to the 25 – 34 old demographic, the company hopes to become the premier auction house for luxury items. Paddle8’s aim is to sell art to people who can afford it, regardless of whether buyers are collectors or meet any predetermined art-world standards at all.\(^{28}\)

The unique opportunity for this business is that the site is fully automated with all the information to buy or sell an item. The price range is normally reasonable, between $1,000 and $100,000. Currently, the average price per lot is $4,800 – although the average price has grown roughly 17% year-over-year on average since 2011. Paddle8 also has well-established shipping and billing logistics in terms of the cost. Most auctions are on view on the website for two weeks, and the company takes an 8% commission. In contrast, the traditional standard is 20 – 25%.

When the buyers win a bid, the company handles the whole process of shipping and billing the seller. An especially good feature is that sellers only have to ship the product once. With these smart strategies, Paddle8 has been located firmly as a pure-play online auction in the art world. In terms of visitor rank, purchase rank, visitor experience rank and buyer experience rank, Paddle8 ranks 5\(^{th}\) within a total

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of 40 online auction platforms and it is the highest ranked pure-play online auction company (see Appendix 1).  

Backed by venture capital firms Founder Collective and Mousse Partners from the start, notable figureheads in the art world such as David Zwirner, Jay Jopling, and Damien Hirst have endorsed Paddle8, to name a few. In December 2015, David Zwirner, one of the most influential international art dealers, invested in Paddle8 and the company has raised $44 million. Most recently, in May, 2016, Paddle8 announced that it would join with Auctionata to create the global leader in online art, collectibles and vintage luxury. Since Paddle8 is based in the US and Auctionata was founded in Berlin, the joint venture can attract collectors from both America and Europe at the same time. The CEO of Auctionata, Alexander Zacke, said “Auctionata and Paddle8’s ability to innovate at a faster pace and develop new technologies and services is a great opportunity to further increase growth.” This big issue has gained a lot of attention in the art world because it was a broad scale consolidation. It occurred, however, just a couple months ago, so it will take time to see the results of integration.

Paddle8 generates revenue with commission fees like traditional auction houses. According to a Paddle8 press release, revenues in 2014 totaled $35.8 million—a 146% increase from 2013 and ahead of any competitor in the space. In 2015, it raised approximately $44 million in funding and attracted more than 500,000 worldwide customers in over 90 countries. The total revenue in the first half of 2015 reached $25 million. One of the reasons that this big growth became possible is

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30 Read, “The Hiscox Online Art Trade Report 2016: Bringing transparency to the online art market,” 15.
that Paddle8 expanded new collecting categories beyond art and design, such as jewelry, books, fashion accessories, and other collectibles. It also hired additional specialists worldwide to serve customers and offer editorials to help buyers figure out what they want.

There are always, however, some suspicions about online auction houses. Historically, collectors have been hesitant to conduct five and six-figure art transactions on an online platform; there, transparency is key to Paddle8’s reputation. In particular, to appeal to collectors and cover the stereotypes, Paddle8 purposes several strategies. A global community of passionate collectors have unprecedented access to online auctions of trusted, high-caliber inventory. Paddle8 also provides an efficient and accessible alternative to the traditional brick-and-mortar auction houses by streamlining the collecting process and charging fees that are significantly less than market norms. Furthermore, as mentioned before, Paddle8 continues partnerships with regional auction houses in Europe and the Americas to offer its authenticated inventory. It will also continue to offer free online auction estimates to consignors, bringing the same ease and efficiency to the process of consigning that the company has already brought to one-click collecting. To design easy accessibility, Paddle8 made mobile bidding and selling even easier by investing in app and mobile capabilities.
5. A Comparative Analysis of Phillips & Paddle8

As a case study to explore trends in the auction market and whether brick-and-mortar auction houses have actually affected the online auctions, I chose Phillips Auction House and Paddle8. As mentioned above, Phillips’ Contemporary Art department features younger artists which represent lower prices than other areas. The online art market also predominantly represents the lower end of the market, classified as being pieces sold for $10,000 or less.\(^\text{33}\) In particular, online companies reported that 97% of their sales in 2015 were for less than $50,000.\(^\text{34}\)

Average fine art prices at auctions worldwide increased by 10% in 2015, as the decline in sales values at auctions was considerably less than the decline in volume. Prices have risen by 84% since their recent lowest point in 2009, and the country with the highest increase in that period was the US, where sales rose 159%.\(^\text{35}\)

While Impressionist and Modern art works were the most popular with many collectors in the 1980s and early 1990s, the market has since been heavily dominated by Modern and Contemporary art, in reference to both their share of value and volume within the fine art sector over the last 15 years (see Appendix 2).\(^\text{36}\) This sector became a new target for new global high net worth collectors. In order to compare two different auction sectors (traditional and online) which are similar in terms of price and genre of artworks, Phillips and Paddle8 are fitting. This paper focuses on Phillips’ Contemporary Art Day Sales in New York, specifically, because they are very similar in price and content to the sales on Paddle8.

This research looked at the catalogs of Contemporary Art Day Sales at Phillips for a

\(^{33}\) Read, “The Hiscox Online Art Trade Report 2016: Bringing transparency to the online art market,” 4.
ten-year period between 2006 and 2016. Contemporary Art Day Sales in New York are held in May and November every year. Within the ten-year period of research, the data of the number of lots, number of artists, number of each type of works are collected.

In the collected data, when we look at the overall change, the number of lots and artists decreased by half relatively soon after the November sale in 2011 (see Appendix 3, 4). The average price of the works (excluding the buyer’s premium) was higher than before. According to the chart, the Phillips Contemporary Day Sale of November, 2007 sold the most lots, and the first real downfall in lot bids occurred in May, 2009. Like the market as a whole, global public auction sales boomed up to 2007, with strong increases in the value and volume of sales, but they fell 44% in the two years from 2007 to 2009. The breakdown after 2009 looked like it was recovering after a couple of years, but it did not last for a long time. A more serious drop happened in November 2011. The year of 2011, which splits the ten-year research period evenly, is the fulcrum of the research and Paddle8 was founded that year. After its founding, every May and November sale has changed slightly. The number of lots and artists at Phillips dropped by approximately one half; from 311 to 161 lots and from 229 to 125 artists.

Surprisingly, the lowest price level at Phillips, on the other hand, became much higher than before, starting in November, 2011 (see Appendix 5). According to the Phillips website, the categories for auction results are divided into four different sections based on total sales prices, which determine the price range for each sale category. Before November, 2011, the range of the lowest price was $5,750 to $12,500. After the shift in 2011, the range of the lowest price has been $17,500 to

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$27,500, an increase of more than $10,000. Meanwhile, the percentage of the lots that are sold at the lowest price range has increased slightly, from 10% to 15% over the ten years, though it has risen a little higher recently, exceeding 13% almost every sale.

Moreover, the time that the day sales were held has changed since November, 2011 (see Appendix 6). Prior to this, it was separated into two sections, at 10am and 2pm on the same day. Since November, 2011, however, Phillips only opens the sale at 11am. This change might have happened because of the number of lots. Since there are fewer lots, combining two segments might be fine.

To get a more comprehensive understanding, I interviewed some experts at different auction houses and online art market. Isabel Suarez, 20th Century & Contemporary Art Administrator at Phillips, said with regard to these results that “there are many factors that influence these changes in sales. While [she] cannot speak with authority as to one main factor that affected these results, [she] would argue that in 2011 Phillips started changing their business mode. They began to focus on raising their average lot value and presenting smaller, higher value and more curated sales.”

Robert Read, head of Fine Art, Hiscox, said these situations are small factors. Online auctions might not be actually affecting many brick-and-mortar markets since the targets are totally different and small value lots are not profitable for traditional auctions. The noticeable point, on the other hand, is that the brick-and-mortars have noticed the online trend and are trying to participate by opening their own online arms, even though the online market is absolutely tiny. They are interested in moving away from that market as well. For example, he noted, Sotheby’s London chose to close the Olympia show room, since they no longer wanted to deal with lots below a certain value, since the cost of selling a thousand-dollar lot is not very different
materially from selling one for a million dollars. So it depends on what the plan was in Phillips in terms of contemporary art sales. But his guess is that they might want to target more of the higher end market since that is more profitable for them.

Similarly, according to Anna Hygelund, one of the heads of Post-War & Contemporary Art at Paddle8, this situation relates more to the contemporary market itself rather than the emergence of online auctions since the contemporary art market is dramatically expanding.

At Phillips, in terms of type of works, each category is separated into paintings, prints, drawings, photographs, sculptures and new media (including video and digital) (see Appendix 7). In particular, the main materials of paintings are oil and acrylic on canvas, linen or panel. In the prints category, silkscreen and etching techniques are included and collage technique is placed in the drawings sector. Under the photographs area, a lot of c-print, Kodachrome photographs, chromogenic prints and digital prints are incorporated. I noted that not only relief carvings but also general installations fall under the sculptures group, and neon works are featured generally in the new media category.

When I look at the number of items in each category, the relative distribution of media types looks similar within same year, even though the total number of works is different in each sale (see Appendix 8). Interestingly, for example, the proportion of each category is spread almost the same across the two sales in May and November of 2008, and it also happened in 2009 as well. Through this, we can guess that collectors’ preferences for certain sectors are similar during a year. Meanwhile, photographs and paints occupied the primary sales categories over the ten years.

Another specific feature of this analysis is that after 2012, the rate of prints increased
almost double. Before 2012, the percentage of prints had been less than 5%, but the demand for prints increased dramatically and has remained high in 20th Century & Contemporary Art Day Sales at Phillips. This means that the diversity of lots has evened out compared to before. The overall trend during the ten-year spread is an increasing equivalence between categories.

This research also considered the prints and multiples market for Andy Warhol (b. 1928, Pittsburg, PA; d. 1987, Manhattan, New York) and Richard Pettibone (b. 1938, Alhambra, CA). This study starts with curiosity about whether the artists have moved from traditional auctions to online auctions. The reason why those two artists were chosen is that the artists represent the high and middle markets, respectively, even though there have some similarities in technique. This paper researched market prices through Artprice. As one of the art price databanks, Artprice has over 30 million indices and auction results covering more than 630,000 artists. It gathers databases from 4,500 auctioneers and publishes the trends of the art market for the world’s principal news agencies and approximately 7,200 international press publications.38

Based on the Artprice database, Andy Warhol’s art market is very well-known in the art world and this is proven by the fact that the artist’s ranking in 2015 was 2. In particular, prints and multiples works are the most popular. The rate of the number of prints and multiples lots sold occupied 73.6% of the total, or 12,871 lots from 2000 to 2016. During the same period, the most widespread price range was from $10,000 to $50,000, with 5,422 lots. To be more specific, the percentage of prints and multiples lots sold was 73.6% from 2006 to 2011 and it has remained similar from 2011 until now, representing 75.8%. The rate of unsold lots from the print-multiple

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category was also similar, moving from 8.4% in the 2006 - 2011 period to 8.2% from 2011 to now (see Appendix 9). Although his works sold the most in 2014, with a significant increase, we can say that the market for Andy Warhol’s prints and multiples works is stable.

On the other hand, Richard Pettibone’s prints and multiples market, which represents the middle-market in this article, is relatively small and less familiar in the art world. The artist’s works are actually more targeted to the painting market. The prints and multiples market for him takes possession of 9.4% of his oeuvre and the actual number of lots for this type of work was only 43 over 16 years. As with Andy Warhol’s market, Richard Pettibone’s works are mostly sold within the range of $10,000 - $50,000, but the number of lots are totally different. Unlike Andy Warhol’s, only 286 works were sold. Meanwhile, overall his market seems to be growing. The percentage of sold lots was 8.5% from 2006 to 2011, but it rose to 11.7% recently. Moreover, the unsold works percentage was 9.2% before 2011, which was worse than Andy Warhol’s. Even though the number of Pettibone works are much smaller than Warhol’s, there is no lot that is unsold these days (see Appendix 9). This means all of his works on the market have been sold since 2011. Ironically, however, the highlight year of his market was in 2007. Moreover, these analyses are based on the whole market for both artists, and it was hard to divide them into two separate markets: brick-and-mortar auctions and online auctions. We can say that the entire market for Andy Warhol is stable and Pettibone’s market is growing, but these situations do not discern whether their markets changed after online auctions appeared or not. Regarding this prints and multiples market, experts from different market environments have expressed several opinions.

For Isabel Suarez (Phillips), in terms of the prints market for 20th Century & Contemporary Art Day Sales, while she cannot speak with authority on the prints and multiples market, she thinks it is important to note that there is an international market for prints by Andy Warhol and Richard Pettibone that is not divided between online auctions and brick-and-mortar auction houses. Phillips prices work according to the international market demand for prints by these artists. Pricing is done by researching past comparable results at auctions that have sold and deciding on a price which is appropriate for the work, but which will also encourage competitive bidding whether online, in the room, over the phone, or by another means. Suarez thinks the steps that a specialist takes to price works are very similar at Phillips and Paddle8. She would argue that sales reflect a stable market for prints by these artists. There are of course always discrepancies as some houses have particular niche markets or are market leaders in a certain area.

Meanwhile, Robert Read (Hiscox) said that prints are the easiest things to buy online because they’re known items which are cheaper than paintings and don’t require a lot of mediation, so people can just click quite easily. According to him, there are some things that sell more easily online. People will buy more prints online, and when we look at the broader art market, some collectibles, such as stamps, are sold almost exclusively online. In particular, in terms of contemporary art market, prints will have a huge role in this market.

Anna Hygelund (Paddle8) said prints and multiples definitely fit better into the online sale. They are not equal, which is unique and people have a sense of what they are looking at and feel more comfortable purchasing online. Therefore, it is a more demanding sale than others. Moreover, in terms of the first assumption of this article, which is whether the artists’ markets have transformed from traditional auctions to
online auctions, Hygelund said some of parts the question can be answered “yes.” In particular, for Andy Warhol prints, there are global collectors and some of them are living in Dubai or Russia, where they do not have huge auction houses. Because of this circumstance, they might feel more comfortable buying Andy Warhol’s prints through online auction platforms. Based on this situation, because of the name of the artist and the simplicity of the medium as well, she would say that we can expect that the online auction sales will help this market to grow in the future. Furthermore, according to Paddle8, there are seasoned collectors visiting their website for the Contemporary sales where Andy Warhol commonly appears.

As we can see in the three experts’ comments, the online sector keeps being spotlighted in the art market and has relatively bright future. As digital technology and e-commerce has become involved in the everyday of all retail industries, buying art online has increased. Following this trend, all suppliers in the art market, including auction houses, have fulfilled this demand by designing innumerable different business models.

One of the main challenges for all online companies, however, is safeguarding website traffic and new clients. Paddle8 and Auctionata focus on the underserved global mid-market in the art auction market. While legacy brick-and-mortar auction houses dominate the high-end of the collectibles market, online secondary marketplaces at the opposite end of the spectrum cannot provide transparency and authentication. Regarding this issue, there are different opinions.

Robert Read (Hiscox) thought the situation will change in accords with credibility. Traditional action houses can be trusted to take care of problems that might arise

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41 Sheth and Elster “Paddle8 and Auctionata unite to form the global online leader in art, collectibles and vintage luxury.”
with the sale, and this comes from their long history in the market. The start-ups, however, lack this history and so buyers and sellers have not yet developed trust as mediators of the market. Read surmises that as people continue to use online markets of lower-end value and lower-risk items, as long as there is transparency in the process, they will begin to become comfortable with the online sellers, which will thus gain trust and credibility.

Meanwhile, according to Paddle8, there are private sales in which Paddle8 brokers between a buyer and seller. These are never open to the public online. Alexander Gilkes, who is one of the co-founders of Paddle8, said that the company “grew really, really quickly in the last year, because of this new culture of stealth wealth. People want to do things in a very discreet manner, and they don’t want to anyone to know what they’re listing or buying.”42 This may help improve the trust and credibility issue for Paddle8 and other companies like it.

Relating to this side, Anna Hygelund (Paddle8) said one of the reasons why Paddle8 does not show the results of the sales is that they are working with a lot of living artists, who are young and emerging. The artists can become sensationalized through auction records, where a cursory reading of a single sale can be used to judge the entire market for an emerging artist, and permanently damage his or her career. Moreover, Paddle8 makes partnerships with non-profit auctions and when the artists donate their works, they do not want to record the price publically on the price database website such as Artnet and Artprice because prices for nonprofits tend to be lower than the open market. Furthermore, there are a lot of reasons that people want to buy artworks through a secondary market, like an auction house, as a way of keeping their purchase information confidential. Paddle8’s withholding of

42 Weiss, “Meet Paddle8’s Alexander Gilks, Art Auction Disruptor.”
sales information adds another layer of privacy to sales. There are a lot of advantages to keeping prices confidential and this is the one thing that Paddle8 wants to stick with.

During the interviews, one of the questions both Suarez (Phillips) and Hygelund (Paddle8) were asked was whether, in general, Phillips and Paddle8 consider online auction and brick-and-mortar auction markets very carefully in terms of pricing, marketing, and merchandise.

Suarez (Phillips) thinks it is important to make a clear distinction between Phillips and an auction house such as Paddle8. While Phillips does attract a similar type of buyer as Paddle8, especially for property at certain price points, she would argue that Paddle8 curates its sales to cater to online buyers, while Phillips for the most part does not. At the end of the day Phillips is a brick-and-mortar auction house and she believes the majority of buyers bid by phone, are absentee or in the room (this might not be the case for all sales, however it certainly is the case for the Latin America Sales, which she has worked on recently). Phillips, however, has invested a great deal in its online platforms, not only as a means of keeping up with the technology of the times, but also as a way to reach out to a buyer pool that might otherwise be ignored. Phillips has its own online platform, and also partners with Invaluable for online bidding during sales.

As this research shows, sales such as Editions, Photographs, and Day Sales often have competitive online bidding because they have property at more accessible price points as well as a range of price points. People are willing to bid $10,000 online but might not be as likely to bid $100,000 online. For example, 20th Century and the Contemporary Evening Sale in Phillips did not have any online bidding this season. In contrast to Phillips, Paddle8 might take a certain kind of property (price
point and genre etc.) because it understands that it will sell online. This is not the case with Phillips as the its traditional avenue for sale matches the items and the buyer mode of purchase.

However, it is also important to note that Phillips has held dedicated online sales for fitting cases. For these, it curates the content for the online buyer as the sale is purely online. In May 2016, the Latin American Art Department, for example, held a live online auction selling Mexican Artisanal works that was comprised of 5 lots from Fomento Cultural Banamex. In this case, Phillips offered property that it was confident would sell online at attractive prices.

Hygelund (Paddle8), on the other hand, notes that the day sales at Phillips focus more on emerging artists, which Paddle8 has direct competition with. Moreover, Paddle8 has recently been competing with the evening sales at Phillips, Christie’s and Sotheby’s as well. In particular, recently, Paddle8 has targeted higher price points and higher estimates and as a result of this, it has entered more directly into the competition for this category.

While these experts have distinctive perspectives, it is obvious that they agree with the fact that the online auction market is one of the emerging platforms for selling and buying art in the art world. Interestingly, Alexander Gilkes, one of the co-founders of Paddle8, met Simon de Pury, a well-known collector and auctioneer who was seeking to modernize a system that had not seen any significant changes in roughly 300 years. Gilkes actually learned the whole basic structure of auction marketing through de Pury, a real market trendsetter, by joining Phillips when de Pury ran marketing for Phillips. During this training period, Gilkes found some inefficiencies in

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43 Weiss, “Meet Paddle8’s Alexander Gilks, Art Auction Disruptor.”
traditional auction house infrastructure. He thought there might be an emerging generation of collectors who desired 24/7 access online, and everything in one place. He also believed that having some sales on a Tuesday afternoon did not make any sense to capture the global demand. Moreover, the costs for catalogs, installations and exhibitions to sell small lots are incredible, so he tried to decrease that economic impact. He felt he should design a middle-market auction platform that was based only online, and which would fit where eBay fails to deliver taste and trust. It is interesting to note that Paddle8 emerged from the brick-and-mortar auction house Phillips, to which this research compares Paddle8, whose strategy is based on overcoming the limitations of Phillips.

As Suarez mentioned above, Phillips has invested in its own online auction platform with Invaluable, and Paddle8 is becoming a well-established online auction house. Pointing to these trends, Hygelund said as more and more people, particularly the Millennial generation, become comfortable online, not only for art sales but also for all types of products, such platforms will become more popular. Hygelund detailed how the art world has traditionally had many dealers and forms of business capitalizing on the profitability of the market and how difficult it is to understand, which means people used to only be able participate by going through professionals. Nowadays, however, many people are collecting art at auction houses on their own. Since the collecting habits and the industry, itself have been changing in tandem, it is obvious to anybody in this industry that the intermediate market and online sales are what art dealers have to figure out if they want to survive and remain relevant.
6. **Conclusion (Synthesize Future)**

Based on the research and analysis above, we can identify that together, different types of sales have formed a unified attack on the traditional world of art auctions. The brick-and-mortar auction houses have stayed firmly their market niche. Robert Read (Hiscox) said, “[He] would say that there is always a side for the brick-and-mortars, since straight art buying is fun to do for people, so [he] thinks people will not stop doing that.”

As the emerging platform for art sales, the online art market, on the other hand, is still looking for a winning business model to implement as a good strategy and way to fulfill customer needs. According to Read (Hiscox), online auctions have a different starting point for the operation of their business. They have limited sales, so they have not had a huge impact yet. He, however, does think that they will make an impact eventually.

Moreover, Read added that in order to do that, there must be a consolidation, since there is no way 50 - 60 different start-ups will survive individually as businesses, and the stronger ones will merge, as is the pattern with most start-ups. Gilkes (Paddle8) said that Paddle8 has appropriated the tech company and minimalist zeitgeist and applied it to an ailing industry by throwing out the extreme excess of the process. In a sense, they have stripped down and democratized luxury art auctions, paring back to the original idea - selling a curated selection of high-value goods in a short amount of time.\(^4\)

In terms of technology and marketing, however, online auctions definitely are trying to figure out their limitations from an engineering standpoint. Search engine and

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\(^4\) Weiss, “Meet Paddle8’s Alexander Gilks, Art Auction Disruptor.”
notifications are considered as a huge and necessary aspect customizing the platform for users, so works become easier to find and the site easier to use. The sophistication site skills, integrating livestream technology and more advanced ways to understand the scale of the work, such as better photographing and videos will be necessary. Furthermore, according to New York state senator Daniel L. Squadron, who has sponsored legislation that would regulate the auction market, “The need to trust the credibility of an auction is as real a need as it was 20 years ago.” This applies to online auctions as well.

To fit in this trend, we also can see that traditional auction houses which have a long history, such as Sotheby's, Christie's and Phillips have made a lot of effort to establish their presence in the online auction market. The big auction houses will gain another business no matter what, either through partnerships with online auctions or inventing their own online auction platforms by themselves. Whichever way it is, however, they will evolve to meet that challenge as always happens with new business models if they are to be successful. All of the business models aim towards increasing value, no matter what type they are. It is hard to deny that as we live in the digital 21st century, online auction platforms provide a blueprint for the future.

Finally, this paper asked questions to the experts who are working in the online art industry, regarding this trend and whether or not the online art auction market will ever surpass the brick-and-mortar auction businesses the future. The answers were as follows:

Anna Hygelund (Paddle8) said that online platforms will not surpass the traditional ones in the near future. Obviously the live auctions are extremely strong and it is a difficult thing to simulate even in the livestream format, she pointed out. But brick-and-mortars are participating in online auctions to further grow and make people buy more online. Hygelund thinks that this provides a vision of the way auctions will come to work in the future.

According to Robert Read (Hiscox), it will be difficult for online auctions to overcome the system of brick-and-mortars partly because people have to raise a lot of money to set up an online auction venture. Read also notes that there is no successful one yet. The market itself for the online sector is absolutely tiny, so Read thinks it is hard to say when it will develop and gain success. It all depends on their strategy.

Going back to the first question of this paper, “Have traditional auction houses been affected by online ones?” the answer could be “Yes.” As we can see in the Phillips case, its strategies have changed, as it has adjusted the type and value of the sales of its Day Sale. Moreover, even though the brick-and-mortar auctions do not show direct changes in their existing sale strategy overall, they have opened their eyes to a new market place, the online auction, are going with the trend. This means they have noticed the rising importance of online auction markets and are trying to harmonize with other sectors in the art world.

In the future, we are likely to see growth in the peer-to-peer space, where both collectors and dealers can start to share their inventory without the intervention of traditional intermediaries. Together, different types of sales have pressured the traditional functioning of auction houses. This situation shows the interaction

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47 Weiss, “Meet Paddle8’s Alexander Gilks, Art Auction Disruptor.”
between different players in the art world. It indicates how two different types of auction houses can coexist by targeting different parts of the market and thus promulgate art in the world.
## 7. Appendix

### 1. Hiscox Online Art Platform Ranking 2016 – top 40

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Figure 2a Market Share by Value of the Fine Art Auction Market: 2000-2015

3. Chart of the Number of Lots and Artists for 20\textsuperscript{th} Century & Contemporary Art Day Sale at Phillips: 2006 - 2016
4. Line Graph of the Number of Lots and Artists for 20th Century & Contemporary Art Day Sale at Phillips: 2006 - 2016

![Phillips Contemporary Day Sale Graph](image)


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8. Bibliography


