Management of Art Galleries – Business Models

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St. Gallen, May 13, 2011

The President:

Prof. Dr. Thomas Bieger
Für meinen Vater
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Abstract

Today, commercial art galleries are part of every city’s cultural life and play a central role in the development of the art market. Given their importance – and their position, located on the intersection of culture and commerce – surprisingly little is known on the economics of art galleries, with art and business remaining reluctant bedfellows and the mere talk of the back room. It seems, however, that art galleries can no longer hide from market reality. It seems that, aside from a handful of big galleries, those that continue their presence in the market usually generate only small profits. If galleries want to enjoy real success in the future, or even just stay in business, they need to catch up with SMEs in other industries and rethink their business practices.

The aim of this research is to generate knowledge on an appropriate configuration of a business model for art galleries. The research is grouped into two key phases. In the Analysis we describe the current business model of art galleries and explain success factors. In the Implication we evaluate our findings and present managerial implications for a new business model of art galleries.

This dissertation is positioned in the field of applied-research science. It tries to explain a practical problem that cannot be described or solved by existing theory. It therefore aims primarily at developing practical implications and solutions, rather than hypothesis or theory. Qualitative as well as quantitative methods collocate on an equal footing to answer the research question. For this particular field of application, it is useful to combine both approaches and methods as they complement one another and increase scope, depth and consistency. The Analysis uses regression analysis to identify the success factors, using profit as dependent and the business model dimensions as independent variables. The findings of this are integrated into the Implication part which uses three cases studies from galleries in Germany and Switzerland to see if our findings work in the real world. The underlying concept for our analysis is the business model concept by Bieger et al. (2001). It presents an optimal tool to generate insights into an unknown industry and existing business models.

Our findings show that the organisational model of art galleries is the single most relevant success factor of art galleries. Gallerists should adopt an organisational model that allows them to be active in all three phases of an artist’s life-cycle: the shopping phase, the decision phase and the final phase. Consequently, gallerists will need to adapt each dimension in the business model accordingly in order to reach a sustainable impact on performance.
Abstract


1 Introduction

1.1 Research Problem

Today, art galleries can be found in every major city. They are part of a city’s cultural life, included in every tourist guide along with museums, exhibition halls and Kunsthallen. To those who live locally, art galleries are also a part of their social calendar, exhibition openings forming a melting pot for the reunion of a select and sophisticated crowd. Furthermore, art galleries contribute substantially to the cultural life of a city (Robertson, 2008; Thompson, 2008). It is the art gallery that supports young artists, helping them to develop and arrange exhibitions that attract collectors. Art galleries form the most relevant intermediary in the art market (Boll, 2009). In short: like shopping centres, museums or fashion stores, art galleries belong in every city and play a substantial role in the art market.

Despite their important role in developing a city’s cultural life, art galleries do not receive any state subsidies. Unlike the art museum, art galleries are commercial entities with a clear business focus. Their revenue model is driven by their income through sales or dealing of artworks, just like any other small business with a product to sell. Art gallery owners are subject to all the same market fluctuations, limitations and opportunities as other entrepreneurs. Even though art galleries have so many parallels with any other business (and, admittedly, some striking differences), it is interesting that an analysis of business practices of art galleries has not yet attracted much attention.

Gallery owners have long neglected the relevance of management practices in their business. They have viewed their gallery as an entity operating in a market free from any of the irritations visited on other markets such as inefficiency, customer failure to pay bills or bankruptcy. Trying to impose business thinking on art galleries was considered as a violation and contamination of the happy planet of the art world. The threat made by popular German art dealer Aenne Aebels against journalist Willi Bongard in the German newspaper “Die Zeit” in 1965 is unforgettable: “Our business has an aura and you are destroying it when you write about business stuff” (Bongard, 1965).

Willi Bongard, founder of the first and still dominant artist ranking index “Der Kunstkompass”, had analysed the market from a business perspective and understood that the art market behaves like any other market.

Even now, art and commerce remain mere back room talk. However, it seems that art galleries can no longer hide from market reality. Today, the market and its irritations have caught up with art gallery owners (BMWI, 2009a; Velthuis, 2005). Although there are no statistics beyond anecdotal evidence and a general observation of the market to prove this, market experts claim that dropout rates in the market are very high compared to other typical SME industries (Fesel,

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1 Some quotes have been translated from German to English by the author in order to increase the reading fluency. Translated quotes can be found in the appendix.
With the exception of a handful of big galleries, those that continue their presence in the market seem to generate only small profits.

If galleries want to enjoy real success in the future, they need to follow the example of SMEs in other industries and rethink their business practices. The concept of “Business Models” can represent a good starting point to revise and improve business practices. “What do customers really want?” “How can a firm get paid for (and profit from) meeting their needs?” are just some of the questions that need to be answered when business models are analysed (Teece, 2010, p. 172). Various industry examples demonstrate that acting on the answers to these questions can stimulate change. Tourist destinations, for example, have turned themselves from a clutch of individual entities into a modern network of service providers, or warehouses have transformed from selling commodities in centrally located facilities to selling online. One of the most prominent examples is that of Wal-Mart where an entirely new business model was developed around an existing market. This dissertation targets the business model of art galleries and sets out to examine it, to develop an innovative and sustainable model that will ensure the business success of galleries in the future.

### Table 1: Examples of Changing Business Models

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<th>Industry</th>
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<td>Transportation</td>
<td>Low cost airline (Ryanair, Germanwings)</td>
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<tr>
<td>Financial sector</td>
<td>Direct banking (First Direct, Deutsche Bank 24, Comdirect)</td>
</tr>
<tr>
<td>Insurance sector</td>
<td>Direct insurance (HUK 24, Allianz 24)</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>Mobil communication (Simyo, Klarmobil)</td>
</tr>
<tr>
<td>Automotive</td>
<td>Flexible car configuration (BMW Group)</td>
</tr>
<tr>
<td>Textile</td>
<td>Redesign of value chain (Schiesser Group)</td>
</tr>
<tr>
<td>Music</td>
<td>Distribution of music (iTunes Musicstore)</td>
</tr>
<tr>
<td>Wholesale</td>
<td>Category management (Metro Group, Otto, Amazon)</td>
</tr>
<tr>
<td>Rent service</td>
<td>Individualised rent for workwear (boco)</td>
</tr>
</tbody>
</table>

Source: Adapted from Kagermann & Österle (2006)

### 1.2 Literature Review

The research object of this dissertation is tangential to several research areas, as the art gallery occupies a unique position: it operates on the intersection of art and business. Correspondingly, two relevant literature fields can be identified: the art-related and the business-related. In general, research in this area is still in its infancy. A few research centres target this field, but their publications and work are still very fragmented. The literature review in this paper includes the following:

First, it draws on art-related literature. Literature from the field of *art management* will be included. Art management literature is directed mainly at art management students and is designed only as an introduction, approaching the topic from a rather broad perspective. More specific is the literature on the *management of particular art institutions and management disciplines*. This discusses the management of museums and theatres. Some of the authors also
focus on specific management disciplines, such as art sponsorship and financing. Furthermore, there is a broad range of books on the art market itself. These books target the general public, introducing them to the art market and its players.

Second, business-related literature will be involved. Here, the literature we reviewed draws on the theory of business modelling, since the business model concept plays a substantial part in this dissertation. Using the business model concept will help to identify success factors (Chesbrough, 2010). Hence, literature on success factors is also included in the dissertation.

Table 2: Selection of Existing Literature in Relevant Research Areas

<table>
<thead>
<tr>
<th>Research Area</th>
<th>Authors and Publications</th>
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<tbody>
<tr>
<td>Art market</td>
<td>(Blomberg, 2008), (Boll, 2009), (Dossi, 2007), (Goodwin, 2008), (Heilbrun &amp; Gray, 2001), (Leyer-Pritzkow &amp; Sebastian, 2005), (Lethert, 2003), (Lewis, 2009a, 2009b), (Lindemann, 2006), (Ammann, Meyer, &amp; Even, 2002), (Polsky, 2003), (Robertson, 2000, 2005, 2008), (Rombach, 2008), (Solomun, 2009; Thompson, 2008), (Thornton, 2008)</td>
</tr>
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</table>

*Art management* has long been out of the spotlight of academic research. Bongard (1967) was among the first to raise the point that art needs management. Yet only in recent years has this academic discipline attracted increasing interest. In Germany in particular, several researchers have picked up on this interest and published extensively on art management. Bendixen (1995, 2001), Heinrichs (1997, 1999) and Klein (2004, 2009) are the most prominent researchers in this area. Their books, originally published as text books for students, try to shape the field of art management research and act as an introduction to it. Birnkraut & Wolf (2007), Konrad (2009), Mandel (2002, 2007), Siebenhaar (2003) and Lewinski-Reuter & Lüddemann (2008) address the transformation of cultural entrepreneurs and define the study of art management. Nevertheless, this literature lacks specific management advice for practitioners and does not include sound academic analyses of existing business practices. Their research interest is mainly directed towards cultural institutions in general, with a heavy focus on non-profit organisations such as museums, theatres, or operas. Art galleries are only briefly discussed.

Literature on the *management of particular art institutions and management disciplines* is more specific and practice-orientated. Several topics within the field of management theory are addressed. In particular, the sponsorship and marketing of cultural institutions are disciplines frequently observed by researchers cf. Benkert (1995), Bortoluzzi Dubach (2007), Bruhn (1989), D. Heinze (2003), T. Heinze (2008), Klein, (2005), Günter & Hausmann (2009), Hausmann (2005, 2009), John & Günter (2007), Höhne (2006, 2009) and Mandel (2009). Researchers have taken a keen interest in these two topics because sponsorship (i.e. generating money) and marketing (communication of services) have been identified by practitioners as the two most relevant factors in the successful operation of their businesses. Additionally, customer orientation is a new topic that has attracted some recent publications, including Hausmann (2010) and Rossberg (2007). Again, these business topics are academically analysed only in the context of art museums, theatres, operas and orchestras, cf. Jochum & Schmid-Reiter (2006), Rohde (2007), Hausmann (2001), Theede (2007), Wall (2006). There is as yet no management literature
for art galleries. Indeed, only Kirps & Fesel (2001) briefly address management-related issues on art galleries.

The art market has been subject to a number of observations in recent years. These differ from the literature on art management since books on the art market are mostly practitioners’ accounts. Most authors position their books as “background reports”, rather than analytical and academically sound observations. These books present key players in the market (Boll, 2009), explain the structure of the market (Dossi, 2007), depict stories of famous collectors or artists (Lindemann, 2006; Polsky, 2003), highlight how prices are built (Thompson, 2008), give advice on how to collect and value art (Leyer Pritzkow, 2006) or just reproduce wisdoms of the art world (Thornton, 2006). Whilst of little value to practitioners, these books certainly increase transparency for the general reader. Interestingly, only Robertson (2005, 2008) started to analytically observe players in the art markets and identify their roles and positions.

While literature on art-related topics may help to understand the art dimension in the art gallery context, literature related to the business aspects will add specific business knowledge. The concept of business modelling is of primary importance, although it has only recently found its way into the discussion of strategic management, for example in Amit & Zott (2010), Bieger et al. (2001), Chesbrough (2010), Chesbrough & Rosenbloom (2002), Treacy and Wiersema’s (1995), Nehls & Baumgartner (2000), Wölfe (2000), Teece (2010), Tomczak et al. (1999), Rüegg-Stürm (2000) and Linder & Cantrell (2000). The speed of change seen in business models across different industries has sparked a lot of interest in the whole concept of business models. It has become increasingly difficult to attach the success of a company to a single product or business unit. Instead, the success of a company might lie in its set-up of network partners, forming a symbiosis along the value chain. Following this development, common strategic models are insufficient to explain the success of a company. In fact, managers are no longer merely concerned with determining a strategy or programme for a company’s product, but rather with establishing business systems within a network (Bieger & Agosti, 2005). On the basis of these developments, several business model definitions will be compared to analyse the ways in which a company creates value in the market, cf. Bieger et al. (2002), Hedman & Kalling (2003), Morris et al. (2005), Osterwalder, Pigneur & Tucci (2005), Shafer, Smith & Linder, (2005) and Stähler (2002). Baden-Fuller and Morgan (2010) highlight that business models help us to classify our world and expand our understanding of business (Baden-Fuller & Morgan, 2010). The business model concept will therefore be useful as a tool to analyse and compare management practices in art galleries.

While discussing the business model, another topic from the field of strategic management literature will be addressed: success factor research. One of the founders of this research area defines success factors as follows: “Critical success factors thus are, for any business, the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organisation. They are the few key areas where ‘things must go right’ for the business to flourish” (Rockart, 1979, p. 85).
Since its emergence in research through the PIMS study (1970), success factor research has been subject to an extensive discussion on its relevance, cf. Aeberhard, Scheller & Bachmann (1996), Krüger & Schwarz (1997), Göttgens (1996) Nicolai & Kieser (2002a,b, 2004), Fritz (2004), Homburg & Krohmer (2004), Ghemawat (1991) and Woywode (2004). On the one hand there are various theories supporting success factor research, namely studies by Peters & Waterman (2004), Simon (2007) and Kim & Mauborgne (2004). On the other, critics claim that the search for success factors is hard, if not impossible: “But the whole idea of identifying a success factor and then chasing it seems to have something in common with the ill-considered medieval hunt for the philosopher’s stone, a substance that would transmute everything it touched into gold” (Ghemawat, 1991, p. 11). Success factor research is relevant for this dissertation project since our research objectives include the identification of those factors that have the least/most impact on art galleries’ performance.

1.3 Research Gap

In the literature mentioned above, various research gaps are identified that serve as a basis for this dissertation.

Firstly, in the field of art-related literature there is a general lack of scholarly literature and descriptive statistics on art galleries. As yet, no researcher has focused specifically on art galleries. While Bendixen (2001), Heinrichs (1999), Klein (2004) and others declare some business recommendations for art institutions (particularly non-profit), they have left out specific and sustainable approaches for art galleries.

This lack of literature is also manifested in the fact that data on art galleries is both in very short supply, and outdated. Furthermore, the few official data reports that are available do not separate art gallery data from other fields, combining art gallery statistics with data on dealing in stamps, coins, gift articles and so on (BMWI, 2009a). Researchers in Austria, Switzerland and Germany therefore claim that “official statistics only deliver very limited insights. Therefore, in order to analyse and interpret existing statistical data researchers must make use of estimates” (ICG Culturplan & STADTart Planungs-Beratungsbüro, 2006, p. 42). Mc Andrew (2010) claims that the gallery market “is one of the most difficult to measure and quantify, as there are little or no published records to indicate the total level of sales as exists in the auction sector. Comprehensive global data on this sector of the market is therefore more limited, and depends to a large extent on surveys” (p. 33).

Other researchers target the lack of management in art galleries: Stefan Shaw (2002) claims that galleries will only hold their position as intermediary between artists and client: “if current challenges are considered as chances. Galleries must transfer from an art-centred business to a client-focused enterprise” (Shaw, 2002, p. 349). Others lobby for increased professionalism in the gallery business. As far back as 1967, Willi Bongard wrote that the amateurishness in conducting art gallery business must change immediately. He describes the art market as: “the most antiquated and immobile business that one could think of. Galleries apply medieval – not to
say Stone Age – distribution and marketing methods, that ridicule modern retail industry and marketing practices. The dilettantism that galleries apply defies any description” (Bongard, 1965). Famous publisher Karlheinz Schmid claims that art gallery owners have a lack of business education: “Errors, weaknesses, helplessness, embarrassments” (Schmid, 2007, p. 104). Heinze (2008) adds: “The institutionalisation of cultural management that started in the late eighties results from the fact that limited public financial power fostered the development of professionalism and business principles in the arts” (p. 9). Mandel (2007) concludes: “Despite innovative and artistically highly regarded offerings, the revenue of cultural enterprises is still very small. Often there is a lack of entrepreneurial and business thinking to become economically successful. Currently, cultural entrepreneurs think of themselves only as creative forces, and not as managers who need to position their services at an appropriate price on the market” (p. 10).

What’s more, various researchers from the field of art management doubt if management principles can be directly transferred to the art industry. Fuchs (1993) questions: “How objective are management principles and to what extent can they be transferred to the cultural sector?” (p. 13). Others go one step further and even argue: “Some economists opine that their tool-set can be universally applied. However, this view disagrees with basic principles that successful managers in the art business apply” (Wyrwoll, 1994, p. 289).

Secondly, in the field of business-related literature there is still a clear trend towards analysing the relevance of the business model concept. In a very recent article Baden-Fuller & Morgan (2010) ask the question: “Are business models useful?”, and went on to focus researchers’ interest on the idea of analysing the actual business model itself to answer this question (p. 156). They emphasise the importance of further research in this area because “when we do so, we can see how this analysis of business models as models challenges the idea and ideal of any single, or fixed, taxonomy or typology of business models” (p. 167). Identifying business models and classifying them will therefore be fruitful to the general discussion.

Moreover, researchers want to test the business model concept in practice. In particular, Bieger et al. (2002) highlight the interest of the scientific community in the question of business model design, and how far components within a business model must align with each other: “An interesting research focus derives from the question which configuration in reference to the arrangement of the business model dimensions are compatible and how this arrangement influences the economic performance” (p. 58). Furthermore, Magretta (2002) and Müller-Stewens & Fontin (2003) argue in favour of a continuation in the discussion of the business model concept. They underline the importance of the configuration of a single dimension in the business model according to the overall strategic direction. For example, if the revenue model and service model are not aligned, negative interdependencies can occur. Gemünden & Schulz (2003) refer to these interdependencies: “We formulate the following question to describe the interdependencies within the business model concept: Which interdependencies exist and how do they impact the business model configuration?” (p. 170).
Finally, the field of success factor research presents another research gap. Critics question the relevance and quality of the derived results and doubt if the identified success factors have any impact. This dissertation will contribute to the current debate on the rigour and relevance of success factor research. Kieser & Nicolai (2005) support this by saying: “Success factor research is deemed to be an exemplary approach to realigning rigour and relevance” (p. 12).

The following table summarises the identified research gaps.

Table 3: Identified Research Gaps

<table>
<thead>
<tr>
<th>Research Area</th>
<th>Identified Research Gap</th>
<th>Authors and Publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Art-related</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Art management</td>
<td>No academic literature on art galleries</td>
<td>Bendixen (2001), Heinrichs (1999), Klein (2005)</td>
</tr>
<tr>
<td>Art market</td>
<td>Customer orientation of art galleries</td>
<td>Weckerle (2008), Mc Andrew (2010)</td>
</tr>
<tr>
<td></td>
<td>Management and professionalism of art galleries</td>
<td>Shaw (2002)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wyrwoll (1994), (Fuchs, 1993)</td>
</tr>
<tr>
<td>Business-related</td>
<td>Usefulness of business models</td>
<td>Baden-Fuller &amp; Morgan (2010)</td>
</tr>
<tr>
<td></td>
<td>Configuration / interdependency of dimensions</td>
<td>Bieger (2002)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gemünden &amp; Scholz (2003)</td>
</tr>
<tr>
<td>Success factor</td>
<td>Rigour and relevance of identified success factors</td>
<td>Kieser &amp; Nicolai (2005)</td>
</tr>
</tbody>
</table>

1.4 Research Objective and Research Question

Generally speaking, academic efforts are undertaken to foster scientific progress and advancement (Tomczak & Dyllick, 2007). To this end, academic efforts can target three research objectives: Identification/Description, Explanation and Evaluation (Tomczak & Dyllick, 2007, p.
This paper sets out to cover these objectives. While the Identification/Description and the Explanation strive to describe reality, it is the Evaluation that uses these findings to elaborate on them and derive results (Popper, 1984; Schön, 1983).

To sum up, based on a practical observation and the identified research gaps in literature, this aim of this dissertation is to generate knowledge on an appropriate configuration of business models for art galleries.

This research aim is supported by several supplementary aims:

- Identify and describe the status quo (Identification/Description)
- Explain and discuss existing statistics to identify success factors in art gallery business models (Explanation)
- Evaluate a possible new business model for art galleries (Evaluation)

On the basis of this research objective the research question evolves as follows:

**RQ: How can art galleries in Western European markets configure their business models in order to achieve sustainable profits?**

To answer this research question the author aligns his approach with the three identified research objectives: Identification/Description, Explanation, and Evaluation (Tomczak & Dyllick, 2007, p. 67). This leads to several supplementary questions which will eventually structure our thoughts:

- Identify and describe the status quo: *Analysis*
  - What are the most relevant statistics to describe the business model of art galleries?
  - What are the predominant business models for art galleries?
- Explain and discuss existing statistics to identify success factors: *Analysis*
  - What are the existing and potential success factors?
- Evaluate a possible new business model for art galleries: *Implication*
  - What could a new business model for art galleries look like?

Since this dissertation project combines three closely connected, consecutive research objectives and because the Identification/Description and Explanation can be regarded as a pre-phase to the Evaluation, the research will be separated into two parts: the *Analysis* and the *Implication*.

The *Analysis* deals with the examination of current business models of art galleries in a sample group (Identification/Description, Explanation). It maps the status quo of art galleries by describing relevant industry statistics, identifying existing business models and finally discussing success factors.

The *Implication* is based on the findings of the *Analysis* (Evaluation). It evaluates a possible new business model for art galleries.
In general, this dissertation is aimed at both practitioners and academics. Practitioners, i.e. art gallery owners, benefit from this research project since they are offered solutions to their financial problems. Academics benefit from this dissertation since the discussion on business models and success factor research will be enhanced and nurtured. It will be interesting to see how the business model concept can be brought to life and applied in practice to identify success factors in real life SMEs.

1.5 Research Design

1.5.1 Academic Positioning

In academia one can broadly distinguish between problem-driven (applied) and theory-driven (basic) research. Key differences are (1) the criteria by which to judge the success or failure of the research, (2) the process by which the research is generated and (3) the objective of the research. It is this final distinction in particular that helps to position our dissertation. While the primary concern of basic research is to discover new phenomena or new ideas of general interest, it is the applied research’s objective to contribute to the solution of a specific practical problem. In this sense, we can clearly position our dissertation in the field of problem-driven (applied) research because it is our objective to find the solution to a practical problem: the management of art galleries. Bortz & Döring (2009), as well as Tomczak (1992), highlight the importance of verifying the derived analysis by means of its practical application to existing business entities. In this sense, this dissertation is successful: the managerial implication section is entirely dedicated to testing the analysis on its practical impact. The central quality factor of our dissertation is hence not primarily the generalisability and clarity of our results (as with basic research) but the power of a practical solution for practitioners.

Ulrich (1981, 1984) has contributed much to define and describe the relevance of applied research (Tomczak & Dyllick, 2007, p. 68). He describes applied research as the solving of practical problems that cannot be explained or solved by existing theory. The aim is to create solutions for practical problems. These solutions should later be tested and falsified by applying them to practical problems, rather than developing hypotheses in order to support leadership decision-making. It is this approach that the dissertation at hand applies: it first targets problems seen in practice before analysing them to finally develop solutions that can be implemented. The starting point is a problem that has as yet attracted little attention and is hence worth analysing (Ulrich, 1981, 1984). Our research objective fulfils these criteria: the problem of how galleries should configure their business models in order to achieve sustainable profits was brought to our attention by practitioners. The review of existing theory concluded that there are currently no solutions, thus leading us to the identification of a research gap. It is now the task of this dissertation to develop solutions that will be verified by their application to the practical problem.

Ulrich distinguishes between four types of applied research (Ulrich, 1981, p. 30-31). These four levels can be separated by two dimensions: the focus and the mode. (1) The focus can vary between solving only one single problem or solving a more diversified problem, i.e. a model. (2)
The mode, again, can vary between actually solving the existing problem or developing rules and recommendations on how to draft a new model. The four levels of applied research allow us to position this dissertation accordingly. The focus of our research is on a complex, diversified problem, i.e. a model (the business model). The mode of our research is to actually solve the problem by the real-life application of solutions and recommendations. Hence, we position our dissertation as type 3.

The following graphic shows the four types of applied research and our positioning.

**Table 4: Ulrich’s Four Types of Management Recommendation**

<table>
<thead>
<tr>
<th>Focus on current, single Problem</th>
<th>Focus on a model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actually solving a practical problem</td>
<td>Level 1</td>
</tr>
<tr>
<td>Advising on solution and strategies to solve problems</td>
<td>Level 2</td>
</tr>
<tr>
<td>Level 3</td>
<td>Level 4</td>
</tr>
</tbody>
</table>


When we state that we apply a practical research approach, we can validate the genuine usefulness of our results against several criteria that Thomas and Tymon (1982) have identified: descriptive relevance, goal relevance, operational validity and non-obviousness (Thomas & Tymon, 1982). They claim: “These needs appear to be necessary conditions for theories or findings to be directly useful to any practitioner” (p. 346). Descriptive relevance describes the extent to which studies portray organisational reality. A study is goal-relevant if the aim of the study corresponds with the goals of practitioners. And operational validity can be guaranteed only if the independent variables can be manipulated/changed directly by the players involved. Finally, non-obviousness or innovativeness describes the criterion that results must be relevant and not obvious to practitioners.

We believe that our research questions and approach at hand fulfil these criteria: our results describe real art galleries with actual organisational features. Our research question is highly goal-relevant because the study uses profit as a dependant variable, which is relevant to practitioners. Moreover, our variables can be directly influenced by practitioners. Finally, since this dissertation is the first to analyse management in art galleries, we provide practitioners with innovative results.
1.5.2 Research Methods

In social science there are several ways to generate knowledge. Researchers mostly distinguish between two key research methods: quantitative and qualitative research. While one of these methods is often applied on its own, some researchers combine the two, the parallel/mixed method research. Since the objective of our research is to generate genuine solutions to a practical problem, we follow this mixed approach in this dissertation. This approach enables researchers to incorporate the diversity of the market but also helps in verifying results. Quantitative and qualitative research is applied as follows:

Firstly, in the Analysis, in order to generate some information on the broad field of business models for art galleries, quantitative research methods are applied. The quantitative method allows us to develop an empirical model, which we use as the basis for our argument in the implication part.

In most cases in the realm of business academic literature – as in ours – quantitative methods are combined with a deductive approach (Atteslander & Bender, 1993). In a deductive research approach, reasoning develops from the general to the specific, a method referred to as “top-down” or “principle of falsification” (Arbnor & Bjerke, 2009; Popper, 1984). This procedural method starts with a theory; the theory is described by specific hypotheses that have been tested quantitatively, i.e. statistically (Lamnek, 1993). Observations are then collected to test the hypotheses with specific data – a confirmation (or rebuttal) of the original theories. Prerequisites to conducting deductive research approaches are (1) the existence of applicable theories that have been tested before, (2) that the data collected can be statistically analysed and (3) that hypotheses can be created. In addition, a great number of observations are necessary (Bortz & Döring, 2009).

In our quantitative study, theory evolves mainly from the field of business model literature. Based on this, we generate hypotheses. Observations are collected via standardised items from approximately 1,100 art galleries in Switzerland, Germany and Austria, providing a cross-section for comparison. These observations are then analysed via a regression analysis to either confirm or decline the hypotheses. A detailed description of this method follows in the referring methods sections.

Secondly, in the Implication, qualitative research in combination with results from the quantitative section is conducted. This permits the researcher to explore the phenomenon holistically, recognising its complexity and context (Eisenhardt, 1989; Punch, 2009; Siggelkow, 2007; Yin, 2009). Qualitative research “aims for in-depth and holistic understanding, in order to do justice to the complexity of social life” (Punch, 2009, p. 238). The main challenge, as with any qualitative work, is to continuously validate the rigour and relevance of the results (Hoffmann-Riem, 1980; Lamnek, 1993).

In contrast to the quantitative study described above, the objective is to test our results by putting them into practice (Yin, 2009). In this dissertation, three art galleries in Switzerland and
Germany serve as cases for this study. In a longitudinal study, their business processes are observed and findings from the previous section are tested and verified. A description of this method is to be found in the corresponding section.

Despite obvious contradictions, it is useful to combine both approaches and methods as they complement one another and increase scope, depth and consistency (Flick, 1998, p. 230). “Ideally, we should like to converge data from several different data classes, as well as converge with multiple variants from within a single class” (Webb, Campbell, Schwartz, & Sechrest, 1966, p. 45). Denzin (1977) supports this claim and highlights the usefulness of method triangulation. It describes “the complex process of playing each method off against the other so as to maximize the validity of field efforts” (Denzin, 1977, p. 310). Since the advantages of a triangulation appear to be particularly useful, this dissertation follows this approach. Qualitative and quantitative methods collocate on an equal footing.

The following table puts the research objective, as well as the research question, structure and method, in context:

**Table 5: Overview of Research Design**

<table>
<thead>
<tr>
<th>Structure</th>
<th>Phases</th>
<th>Research Objective</th>
<th>Sub-Research Question</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis</td>
<td>Identification/</td>
<td>Identify and describe the status quo</td>
<td>What are the most relevant statistics to describe the business model of art galleries?</td>
<td>Quantitative study (descriptive statistics, regression analysis, literature review)</td>
</tr>
<tr>
<td></td>
<td>Description</td>
<td></td>
<td>What are the predominant business models for art galleries?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Explanation</td>
<td>Explain and discuss existing statistics to identify success factors in art gallery business models</td>
<td>What are the existing and potential success factors?</td>
<td></td>
</tr>
<tr>
<td>Implication</td>
<td>Evaluation</td>
<td>Evaluate a possible new business model for art galleries</td>
<td>What could a new business model for art galleries look like?</td>
<td>Qualitative study (results from the Analysis, three case studies, expert talks)</td>
</tr>
</tbody>
</table>


1.6 Dissertation Outline

This dissertation is divided into four main parts. It starts with the *Introduction* (Chapters 1 + 2) before continuing with the empirical heart of this paper, the *Analysis* (Chapter 3). Results of the *Analysis* lead to the *Implication* (Chapter 4). The *Conclusion* (Chapter 5) summarises our key findings.

The *Introduction* consists of Chapters 1 and 2. The main purpose is to introduce the reader to the topic and lay out the theoretical foundation for the subsequent *Analysis*. Chapter 1 starts with an introduction to the topic and gives a brief description of the problem at hand. We then discuss the existing literature available on the topic and identify research gaps. Having found the gaps, research objectives and questions are formulated which lead to a description of the research design. We discuss research methods only briefly because a more extended explanation is given in subsequent chapters. In the next chapter (Chapter 2), we present the relevant theoretical basis. Firstly, success factor theory is introduced, evaluated and put in the context of this paper. Success factor research forms one theoretical pillar of this thesis. Second, we introduce the business model concept – the second theoretical pillar of this dissertation. One model, which will guide us throughout this paper, is described in detail. Again, the concept is evaluated and put into the specific context of this dissertation. Finally, we give an introduction to the art market to describe the contextual framework of this dissertation. The composition of both market and players is analysed to demonstrate the complexity of the market. This also serves to describe the boundaries of this study since we do not analyse the entire art market but only a certain dimension of it.

The *Analysis* consists of Chapter 3, the analytical heart of this paper, which applies a quantitative research methodology. It deals with the examination of current business models of art galleries (Identification/Description, Explanation). It maps the status quo of art galleries by describing relevant industry statistics, identifying existing business models and explaining success factors. Chapter 3 starts with an explanation and reasoning of the applied research methods. Then summary statistics are presented in order to better understand the market which is strongly characterised by a severe lack of data. Overall statistics for the whole sample are presented, as well as comparing the three observed countries Germany, Switzerland and Austria. Thereafter hypotheses are developed and data is analysed via a regression analysis. Finally, the discussion of empirical results identifies success factors and classifies existing business models.

Chapter 4 consists of the *Implication* and applies a qualitative research methodology. It deals with the findings of the *Analysis* to evaluate a possible new business model for art galleries (Evaluation). Chapter 4 starts with an explanation and reasoning of the applied research methodology. Then a general discussion on management principles leads to the presentation of the goal triangle of art galleries. Thereafter, the new business model for art galleries is introduced: each dimension of the business model is addressed, with a focus on those that have the most critical impact on success.
Chapter 5 is the Conclusion. Its main purpose is to compare our findings to our research question and objective to conclude if all questions have been answered. Chapter 5 starts with the summary of findings from both the Analysis and the Implication. A graphic compares our findings to our initial research question to determine if all questions have been answered. Finally, limitations are presented and directions for further research avenues are introduced.

**Figure 1: Structure of the Research Project**
2 Conceptual Basis

This chapter lays out the conceptual basis of this dissertation. It is the theoretical foundation for the subsequent chapters and Analysis. At first, an introduction to success factor research is given, highlighting its limitations. This is followed by the presentation of the business model concept which builds the framework for the analysis of art galleries. Finally, the art market is presented and its composition and characteristics are highlighted.

2.1 Success Factor Research

The business model concept is the unit of analysis in identifying success factors in art galleries (Baden-Fuller & Morgan, 2010; Boehnke, 2007; Chesbrough, 2010; Teece, 2010). Since success factor research has attracted wide interest in strategic management literature in recent years, we will discuss it briefly.

The following part is divided into three sections: (1) A brief introduction on the history of success factor research is given. (2) The targets of success factor research are identified. (3) Advantages and limitations of the success factor approach in relation to this dissertation project are discussed.

2.1.1 Origins of Success Factor Research

At the core of success factor research is the identification of those factors that are relevant to the success of a firm. Rockart (1979), one of the founders of the success factor approach, describes it as follows: “Critical success factors thus are, for any business, the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organisation. They are the few key areas where ‘things must go right’ for the business to flourish” (p. 57). While it seems clear that success factors are a prerequisite for success, the term “success” takes on various forms and is used daily in various contexts. Hence, its definitions are widespread and diverse. The most neutral definition is by Dictionary.com that defines success as “the favourable or prosperous termination of attempts or endeavours” (Dictionary.com, 2009). In a business context, success can take on various forms and be measured through certain variables such as return on assets, return on equity, growth, profitability, or net income. March & Sutton (1997) therefore state: “Nevertheless, talking about the purposes of organisations and evaluating comparative organisational success and failure in fulfilling those are conspicuous parts of conventional discourse. Business firms are compared in terms of profits, sales, market share, productivity, debt ratios, and stock prices. Hospitals use costs recovery (…) Universities use research productivity (…)” (March & Sutton, 1997, p. 698).

Success factor research has issued a number of well-known management tools and has received much attention in theory and practice since the 1980s (Nicolai & Kieser, 2002a, 2002b; Woywode & Weinkauf, 2004).
It started off in the 1960s with the PIMS study (Profit-Impact of Market Strategies). The PIMS study demonstrates that a relatively high market share in combination with high quality products has a positive impact on success. The Portfolio Matrix by the Boston Consulting Group (1968) was another milestone in the development of success factor research. Its key benefit is the conceptual analysis of all products existing in the company. In a simple matrix these are compared and strategies can be derived from this. In 1982 Peters & Waterman published the 7-S-Modell that still serves today as a tool for identifying relevant differentiating traits of successful firms. This was then followed by the Hidden Champions concept by Simon (1996). Simon observed medium-sized enterprises that were largely unknown to a wide public and analysed their success strategies. Finally in 2004 Kim & Mauborgne published the Blue Ocean Strategy, which observes success strategies of profitable business models.

2.1.2 Target of Success Factor Research

Various factors influence the success of a company but the role of success factor research is to identify those that are the most important, most critical. Critical success factors are those that have the most impact on the success of a company and hence build the basis for the strategic management of a company (Daschmann, 1994; Göttgens, 1996).

Of course, no single factor is solely responsible for the success of a company. Therefore, success factor research has highlighted the interdependencies of success factors. Göttgens in particular highlights the fact that an analysis concentrating on the combination of success factors is the best way to really understand the source of internal success. Furthermore, Göttgens introduces the idea that the impact of success factors can vary in time. Some success factors can have immediate impact on success, while the impact of others is delayed. The following figure gives three examples to demonstrate the timely impact of success factors.

Figure 2: Impact of Success Factors in Reference to Time

In the first picture the impact of success factor A is degressive. With success factor A implemented to only a small degree, success is reached very quickly. A very high degree of implementation, however, leads to only marginal success. With success factor B, the impact is linear. The more the factor is implemented, the more impact it has on success. The final success factor C demonstrates a progressive impact. There are intense resources and time needed to reach
success with this factor. However, once a certain point is reached, the success factor has a very strong impact.

### 2.1.3 Discussion of the Success Factor Approach

Since its emergence in literature, researchers have always challenged the scientific reasoning of success factor research. Ghemawat (1991) argues: “Strategy has focused, for the most part, on success factors. Theories of strategy that trade on success factors prescribe algorithms, usually single-factor ones, for improving performance. But the whole idea of identifying a success factor and then chasing it seems to have something in common with the ill-considered medieval hunt for the philosopher’s stone, a substance that would transmute everything it touched into gold” (p. 11). Furthermore, Nicolai & Kieser (2002) claim: “Research on success factors was only marginally successful, despite its intensive effort. It seems that supporters of success factor research are not interested in the outcome of their findings and how these are implemented into practice (p. 581).”

Some researchers have analysed the advantages and limitations of success factor research. Their key points can be summarised as follows (Bauer & Sauer, 2004; Fritz, 2004; Ghemawat, 1991; Homburg & Krohmer, 2009; Nicolai & Kieser, 2002a):

**Table 6: Discussion of Success Factor Research**

<table>
<thead>
<tr>
<th>Discussion Point</th>
<th>Cons</th>
<th>Pros</th>
</tr>
</thead>
</table>
| **Relevance**    | - Practical impact has proven to be very limited  
- Only limited application | - SF give managers a practical tool to analyse their business and that of their competitors  
- Some concepts are part of the tool sets of the biggest consultancies |
| **Methodology**  | - Key-Informant bias  
- Survival bias  
- Endogeneity  
- Simultaneity  
- Regression-to-the-mean problem | - Criticism is directed not at the results of success factor research but at hypothesis-driven empirical social science methodological approach |
| **Validity**     | - SF are derived from the past  
- Validity for the future is doubtful, not proven  
- SF research does not incorporate a time component or interdependencies of factors | - General problem of all empirical research: data is most frequently derived from the past |
| **Generalisability** | - SF are only valid for the company observed  
- Best practice cases cannot be transferred to other cases | - Results are based on scientific findings and case studies  
- Generalisability is therefore given (if methodology was applied correctly) |
| **Reliability**  | - Findings of quantitative SF are social constructs  
- Findings are subject to personal impressions of researcher and | - Reliability given through academically correctly conducted research methodology  
- Objectivity can never be guaranteed |
The discussion above illustrates that most criticism of success factor research revolves around methodological flaws. Although each researcher highlights the practical usage of the success factor approach, the limitations are obvious. Success factor research maps several factors that describe the success of a company. However, by reducing the complexity of the success formula, key components might be left out of the equation. Furthermore, there are severe doubts concerning validity, generalisability and reliability.

2.1.4 Relevance and Application of Success Factor Research for This Dissertation

The identification of success factors in art galleries is part of the research question of this study. As indicated above, the success factor concept is a valuable tool in identifying the core features of success in art galleries. However, in order to avoid potential errors that might bias the outcome, we must heed the issues mentioned above.

In order to avoid error, three safeguards are applied: (1) The scientific research approach must be sound and refer to most common standards. This responds to criticism from the scientific community concerning methodological faults when applying the success factor approach. (2) Success factor research is applied in combination with the business model concept. As literature suggests, the business model concept has proved to be a valuable tool for analysing businesses (Baden-Fuller & Morgan, 2010; Boehnke, 2007; Chesbrough, 2010; Teece, 2010). This combination of two theoretical constructs helps to identify those factors that are most relevant. (3) Through the unique combination of qualitative and quantitative research, the identification of success factors will be double-checked. This ensures that critical factors are spotted and interdependencies discovered.

2.2 The Business Model Concept

The concept of the business model is the unit of analysis in this dissertation and is introduced in this section.

The following part is divided into four: (1) A brief overview of the evolution of analysis perspective in management science is given. (2) Several business model definitions are...
summarised. (3) One selected business model concept in particular is presented. (4) Finally, the relevance and application of the business model concept to this thesis are discussed.

2.2.1 Traditional Theories

When analysing businesses, management science traditionally used two perspectives: the market-based view and the resource-based view.

The market-based view, as its name suggests, deals with the company’s position in the market and regards an privileged position as key reason for a firm’s success. The key question is: In what way does the market/environment present opportunities or threats to the business? According the most prominent tool for the analysis of markets, Porter’s five forces framework, the attractiveness of a market depends on five factors: competition from substitutes, competition from industry rivals, competition from new market entrants, bargaining power from suppliers and from customers (Porter, 1985a, 1985b). Other researchers have adapted this concept slightly, for example Brandenburger and Nalebuff’s who argue that complementors have to be added to the framework (Brandenburger & Nalebuff, 1996).

While the market-based view focuses on external factors that affect the business working in a certain environment, the resource-based view deals with the resources of a firm. Resources must be valuable, rare, in-imitable and non-substitutable (Barney, 1991) and can take on various forms, such as

- brands, patents or machinery (Wernerfelt, 1984),
- primary and supporting activities along the value chain (Porter, 1985a),
- core competencies (Prahalad & Hamel, 1990)
- or (more recently) a firm’s dynamic capabilities (Teece, Pisano, & Shuen, 1997).

The market-based and resource-based views were for a long time regarded as the ultimate tools for business analysis. However, the economic structures and processes businesses used to operate in are no longer valid, mainly resulting from new developments, such as the rise of information technology or globalisation (Boehnke, 2007). For example, the overall success of a company was usually linked to the success of a single product. Today, as we have seen on various occasions, a product can be successful, but the company can still generate losses resulting from inefficient use of resources or unfruitful cooperation. Or services can no longer be charged for directly but income must be earned through indirect returns (such as banner advertisements on the internet) (Bieger et al., 2002). As product life cycles get shorter, the key to successful business has shifted from single transactions to lasting and proactive customer relationship management (Rudolf-Sipötz & Tomczak, 2001). Furthermore, often single companies do not offer the value needed but a network of partners. Osterwalder et al. (2005) adds that industry, as well as a company’s boundaries, has become nebulous.
Table 7: Evolution From "Old" Towards "New" Business Models

<table>
<thead>
<tr>
<th>Old Business Models</th>
<th>New Business Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction</td>
<td>Lasting customer relationship management</td>
</tr>
<tr>
<td>Product price</td>
<td>Complex revenue concept</td>
</tr>
<tr>
<td>Single product</td>
<td>Integrated product concept</td>
</tr>
<tr>
<td>Internal value chain</td>
<td>Virtual companies with diverse value chains</td>
</tr>
<tr>
<td>Unit of analysis: company</td>
<td>Unit of analysis: business model</td>
</tr>
</tbody>
</table>

Source: Adapted from Bieger et al. (2002)

These and other developments describe the transition from the “old” to the “new” business world and are summarised in the table above. The new business world focuses increasingly more on the interaction of partners in a network or the transition of single transactions into lasting relations. Hence, Zott & Amit (2004) argue that these dramatic changes resulted in revolutionary innovations that could no longer be explained using traditional frameworks. This shift in business models calls for new frameworks that can handle the changes. According to researchers the business model concept could be a suitable framework (Hedman & Kalling, 2003; Stähler, 2002). The following table summarises the move from traditional theories towards the new business model concept using tourism as an example:

Table 8: The Business Model Concept as a New Theory to Understand a Company

<table>
<thead>
<tr>
<th>Theory</th>
<th>Core Theory</th>
<th>Relevant strategic unit</th>
<th>Example: Tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market-based view</td>
<td>Competitive advantage through optimal focus on needs and wants of relevant markets</td>
<td>Strategic business unit (i.e. stable product-market combinations)</td>
<td>SBU – specific strategy: hotel for families</td>
</tr>
<tr>
<td>Resource-based view</td>
<td>Competitive advantage through resources (such as core competencies that are hard to imitate or match)</td>
<td>Company (i.e. unit that has access to all resources)</td>
<td>Cable car / mountain railways with core competency in event management</td>
</tr>
<tr>
<td>Network economy</td>
<td>Competitive advantage through optimal configuration of resources and output in company/networks</td>
<td>Business model</td>
<td>Theme park with an individual financing model for each attraction</td>
</tr>
</tbody>
</table>

Source: Adapted from Bieger & Agosti (2005, pp. 5, 6)

2.2.2 Summary of Business Model Definitions

The business model concept has gradually more attracted attention over the past years and is frequently employed in theory and practice (Magretta, 2002; Osterwalder, Pigneuer, & Tucci, 2005; Shafer, Smith, & Linder, 2005). Among the first to define and describe the business model concept were researchers in the area of e-commerce (Afuah & Tucci, 2003; Mahadevan, 2000;
Tapscott, Lowy, & Ticoll, 2000; Timmers, 1998; Zimmerman & Alt, 2001). The transfer of the concept to other management areas has started only recently (Chesbrough & Rosenbloom, 2001; Rentmeister & Klein, 2003; Shafer et al., 2005). In contrast, while academics only slowly adapted to the concept, practitioners have quickly picked up on it – probably as a response to increased challenges in a business environment that becomes more and more complex (Morris et al., 2005). Both sides agree that the business model is a new concept for analysing business units and is highly relevant to both management theory and practice. Furthermore, its success derives from the fact that it combines both the market-based and resource-based views (Hedman & Kalling, 2003; Morris et al., 2005).

When it comes to establishing a definition of the business model concept and presenting its components, researchers have not yet reached a final conclusion. Largely based on Porter’s value chain approach, Timmers (1998) defines the business model as a “description of the architecture of value generation, the potential value generated for partners and consumers, the sources of revenue and marketing strategy” (p. 4). Mahadevan (2000) defines the business model as “a value stream for partners and consumers, a revenue stream and a logistical stream” (p. 57). A more recent business model description is offered by Kagermann and Österle (2006). In their concept “business model 2010” they identify six factors in success: customer retention, customer approach, product/service, ecosystem, emotion and price/costs. Companies that excel in these dimensions and are quick to adapt to a dynamic environment are more successful than their competitors. Another very recent approach is described by Johnson, Christensen and Kagermann (2008). They argue that a successful business model has four components: first, a customer value proposition, i.e. a model that helps customers perform a specific “job” that alternative offerings do not address. It includes the three steps: “target customer, job to be done, offering” (p. 52). Second, this model has to generate value for the company through a revenue model, cost structure, margin model and resource velocity. Third, the company needs to have the key resources (people, technology, products, facilities, equipment and brand) and fourth, the key processes (processes, rules and metrics, norms) to deliver the value proposition to targeted customers.

Various other researchers have tried to define a business model (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2001; Linder & Cantrell, 2000; Mitchel & Brucker Coles, 2003; Nehls & Baumgartner, 2000; Rüegg-Stürm, 2000; Schögel, 2001; Treacy & Wiersema, 1995; Wallin, 2000; Wölfle, 2000).

In addition to these original definitions, there are several secondary sources that offer reviews of these and other original definitions and are therefore very useful as an extensive overview of literature on business models. Boehnke (2007) summarises some selected secondary sources.
<table>
<thead>
<tr>
<th>Source</th>
<th>Business model components</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Structure: actors and governance, strategic focus</td>
</tr>
<tr>
<td></td>
<td>3. Processes: value creating activities</td>
</tr>
<tr>
<td></td>
<td>4. Revenues</td>
</tr>
<tr>
<td></td>
<td>5. Legal environment: beneficial and constraining regulations</td>
</tr>
<tr>
<td></td>
<td>6. Technological environment: opportunities and limitations</td>
</tr>
<tr>
<td>Bieger et al. (2002)</td>
<td>1. Value system: customers, products and services</td>
</tr>
<tr>
<td></td>
<td>2. Communication concept: marketing position</td>
</tr>
<tr>
<td></td>
<td>3. Revenue concept</td>
</tr>
<tr>
<td></td>
<td>4. Growth concept: margin, market share</td>
</tr>
<tr>
<td></td>
<td>5. Configuration of competencies: core competencies</td>
</tr>
<tr>
<td></td>
<td>6. Organisation: firm boundaries</td>
</tr>
<tr>
<td></td>
<td>7. Cooperation concept: value partners</td>
</tr>
<tr>
<td></td>
<td>8. Coordination concept: governance across firm boundaries</td>
</tr>
<tr>
<td></td>
<td>2. Competitors</td>
</tr>
<tr>
<td></td>
<td>3. Offering: products and services, marketing strategy</td>
</tr>
<tr>
<td></td>
<td>4. Activities and organisation</td>
</tr>
<tr>
<td></td>
<td>5. Resources: human, physical, organisational</td>
</tr>
<tr>
<td></td>
<td>6. Supply of factors and production inputs</td>
</tr>
<tr>
<td></td>
<td>7. Longitudinal process component: dynamics over time, scope of management</td>
</tr>
<tr>
<td>Morris et al. (2005)</td>
<td>1. Factors related to the offering: products and services, value chain architecture</td>
</tr>
<tr>
<td></td>
<td>2. Market factors: customer target groups</td>
</tr>
<tr>
<td></td>
<td>3. Internal capability factors: core competencies</td>
</tr>
<tr>
<td></td>
<td>4. Competitive strategy factors</td>
</tr>
<tr>
<td></td>
<td>5. Economic factors: revenues, margins</td>
</tr>
<tr>
<td></td>
<td>6. Personal/investor factors: time, scope and size ambitions</td>
</tr>
<tr>
<td>Osterwalder et al. (2005)</td>
<td>1. Product: value proposition</td>
</tr>
<tr>
<td></td>
<td>2. Customer interface: target customer, distribution channel</td>
</tr>
<tr>
<td></td>
<td>3. Infrastructure management: value configuration, core competencies, partner network</td>
</tr>
<tr>
<td></td>
<td>4. Financial aspects: cost structure, revenue model</td>
</tr>
<tr>
<td>Shafer et al. (2005)</td>
<td>1. Strategic choices: customer, value proposition, competencies, revenue/ pricing, competitors, offering, strategy, branding, differentiation, mission</td>
</tr>
<tr>
<td></td>
<td>2. Create value: resources, processes</td>
</tr>
<tr>
<td></td>
<td>3. Value network: suppliers, customer information/relationship, information flows, product/service flows</td>
</tr>
<tr>
<td></td>
<td>4. Capture value: cost, financial aspects, profit</td>
</tr>
<tr>
<td>Stähler (2002)</td>
<td>1. Value proposition</td>
</tr>
<tr>
<td></td>
<td>2. Products or services</td>
</tr>
<tr>
<td></td>
<td>3. Value architecture: market design, internal and external value architecture</td>
</tr>
<tr>
<td></td>
<td>4. Revenue model</td>
</tr>
</tbody>
</table>

Source: Boehnke, 2007
As we can see from the summary, most definitions share some common features. Consolidating the common characteristics, five key components of a business model can be identified. These are *product*, *marketing*, *internal management*, *financial aspects* and *outlook*. All five components have some sub-components, i.e. those that actually describe the business model. In the following these will be called “business model building blocks”.

To make it short, *product* exemplify the benefit a company presents to its customers (Mahadevan, 2000; Stähler, 2002). *Marketing* is the cluster for two very relevant business model building blocks. It is crucial to define exactly which customers should be targeted and how the value proposition is communicated (Hedman & Kalling, 2003; Stähler, 2002). *Internal management* comprises the internal architecture, i.e. the organisation and the configuration of the partner network and competencies. In other words, it explains how the company is organised internally, in terms of competencies, organisation and in reference to its partner network (Bieger et al., 2002; Osterwalder et al., 2005). Furthermore, the architecture indicates which steps of the value chain are performed by the firm and which are outsourced (Alt & Zimmermann, 2001; Hedman & Kalling, 2003). *Finance* describes the way the company generates money through a variety of revenue flows (Bieger et al., 2002; Osterwalder et al., 2005). *Outlook* is closely related to all other components, since it encompasses the competitive strategy of a business in relevance to the changing market environment. It describes how the company will grow in the future (Bieger et al., 2002; Morris et al., 2005). The following table illustrates the key components and their corresponding business model building blocks.

**Table 10: Business Model Components**

<table>
<thead>
<tr>
<th>Key Component</th>
<th>Business Model Building Blocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Value proposition</td>
</tr>
<tr>
<td>Marketing</td>
<td>Customer</td>
</tr>
<tr>
<td></td>
<td>Communication</td>
</tr>
<tr>
<td>Internal Management</td>
<td>Organisation (internal architecture)</td>
</tr>
<tr>
<td></td>
<td>Partner network</td>
</tr>
<tr>
<td></td>
<td>Competencies</td>
</tr>
<tr>
<td>Finance</td>
<td>Revenue model</td>
</tr>
<tr>
<td>Outlook</td>
<td>Growth concept / strategy</td>
</tr>
</tbody>
</table>

The following table shows which elements of the business model definitions discussed earlier in this section are covered by the components identified in the previous table.
<table>
<thead>
<tr>
<th>Source and Components</th>
<th>Product / service concept</th>
<th>Marketing concept</th>
<th>Internal concept</th>
<th>Finance concept</th>
<th>Outlook concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bieger et al. (2002)</td>
<td>Product / service concept</td>
<td>Product / service concept</td>
<td>Communication concept</td>
<td>Organisational concept</td>
<td>Cooperation + coordination concept</td>
</tr>
<tr>
<td>Hedman &amp; Kalling (2003)</td>
<td>Offering</td>
<td>Customers</td>
<td>Offering</td>
<td>Activities and organisation</td>
<td>Supply of factor and production inputs</td>
</tr>
<tr>
<td>Johnson, Christensen &amp; Kagermann (2008)</td>
<td>Offering, job to be done</td>
<td>Target customer</td>
<td>Information, channels, brand</td>
<td>Key processes</td>
<td>Partnership, alliances</td>
</tr>
<tr>
<td>Mahadevan (2000)</td>
<td>Value stream</td>
<td></td>
<td></td>
<td>Logistical stream</td>
<td>Revenue stream</td>
</tr>
<tr>
<td>Morris et al. (2005)</td>
<td>Products and services</td>
<td>Market factors</td>
<td>Value chain architecture</td>
<td>Internal capability factors</td>
<td>Economic factors</td>
</tr>
<tr>
<td>Osterwalder et al. (2005)</td>
<td>Value proposition</td>
<td>Target customer</td>
<td>Distribution Channel</td>
<td>Value configuration</td>
<td>Partner network</td>
</tr>
<tr>
<td>Shafer et al. (2005)</td>
<td>Value proposition</td>
<td>Customer</td>
<td>Processes</td>
<td>Value network</td>
<td>Resources</td>
</tr>
<tr>
<td>Stähler (2002)</td>
<td>Value proposition</td>
<td>Market design</td>
<td>Internal value architecture</td>
<td>External value architecture</td>
<td>Internal value architecture</td>
</tr>
</tbody>
</table>

Source: Adapted from Boehnke (2007)

As we can see from the comparison of business model components the Bieger et al. (2002) model is most in line with the components and sub-components we identified. Hence, rather than adding another definition to the existing ones, it will be more useful to analyse the Bieger et al. business model definition in depth with a minor amendment to the product / service concept which we will separate into two: the product concept and the customer concept, where the product concept focuses more on the value proposition, while the customer concept focuses on the customer and which customer sectors should be targeted.
2.2.3 **The Bieger et al. Business Model**

To start with, Bieger & Agosti (2005) define eight trends in the modern economy as the underlying hypothesis to their definition of their business model (p. 3-5).

1. The overwhelming trend towards global sourcing and buying has forced firms to focus on a particular group of customers. In order to gain the attention of the most likely buyers of their product, the value system has to be adapted to fit. This will be the only way to really influence customer decision-making.

2. In an age of excessive stimuli and the economy of attention (Franck, 1998) it is increasingly difficult to attract customer attention. Traditional advertising will not be sufficient to entirely place a positive message in the customer’s mind. Hence, firms depend on a positive C2C (customer to customer) communication. Only then will customers be attracted to buy the product.

3. More and more companies no longer make profit in their core business. Fierce competition has forced companies to cut their margins in order to safeguard their market share. Furthermore, core business areas usually represent a company’s weakest points, since they are the most visible and in the public focus. Hence, firms must differentiate their business and develop secondary lines in addition to their core business.

4. Speaking in terms of generating additional capital, firms must be aware that their business is judged on the basis of future discounted cash flow. The DCF relies on the growth potential of a company. Hence, in order to be attractive for capital, firms must develop a growth strategy.

5. Today, value is created within a corporate network, rather than by single business entities. As a result, companies specialise in their own core competencies, market them and buy in additional core competencies from other companies. Hence, a company’s network of partners will play a substantial role in their own success.

6. Modern business models require a complex system of competencies. It will be a key task for a successful firm to identify which competencies it possesses in-house, and which competencies must be bought in.

7. In an environment strongly characterised by cooperation among companies, the selection of partners will play an important role. The selection process must find a partner capable of entering in a lasting relationship. The selection must therefore be driven not only by monetary reasons, but also by soft factors such as potential.

8. Future business models will need to handle more complex situations. This demands a coordination model that can serve as regulator.
2.2.3.1 Components of the Adapted Bieger et al. Business Model Concept

On the basis of the eight trends identified, the findings of several researchers (Amit & Zott, 2000; Nehls & Baumgartner, 2000; Rüegg-Stürm, 2000; Timmers, 2000; Tomczak, Schögel & Birkhofer, 1999; Treacy & Wiersema, 1995; Wölfle, 2000; zu Knyphausen-Aufseß & Meinhardt, 2000) and the comparison conducted above, the following presents the adapted Bieger et al. (2002) business model concept. A business model can be defined as follows (Bieger & Lottenbach, 2001):

“A business model is the description of the way in which a company, a corporate system or an industry creates value on the market. This requires answers to the following questions:

Which benefits do we transfer / What job has to be done?

Which customers do we target?

How is this benefit communicatively anchored in the relevant market?

How are revenues generated?

Which growth concept is pursued?

Which core competencies are necessary?

What is the range of one’s own company?

Which cooperation partners are selected?

Which coordination model is used?"

The following table demonstrates their practical usage, comparing two power-tool providers.

**Table 12: Components of the Adapted Bieger et al. Business Model**

<table>
<thead>
<tr>
<th>Business Model Components</th>
<th>Traditional Power Tool Company</th>
<th>Hilti’s Tool Fleet Management System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which benefits do we transfer? What job has to be done?</td>
<td>Sales of industrial and professional power tools and accessories</td>
<td>Leasing a comprehensive fleet of tools to increase contractors’ on-site productivity</td>
</tr>
<tr>
<td><em>Value proposition</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Which customers do we target?</td>
<td>Same customer (crew leaders, on-site purchasing managers)</td>
<td>Same customer but different position (CEOs and CFOs)</td>
</tr>
<tr>
<td><em>Customer</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How is this benefit communicatively anchored in the relevant market?</td>
<td>Distribution channels</td>
<td>Strong direct sales approach</td>
</tr>
<tr>
<td><em>Communication concept</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How are the revenues generated?</td>
<td>Expensive revenue management system; low margins, high inventory turnover.</td>
<td>Simple pricing systems: one bill every month for everything; higher margins</td>
</tr>
<tr>
<td><em>Revenue concept</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Which growth concept is pursued?</td>
<td>Sell more power tools (volume); increase assets on customer’s balance sheet</td>
<td>Increase quantity of lease/subscription model; offer services not products</td>
</tr>
<tr>
<td><em>Growth concept</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In the following we analyse each dimension in detail:

**Value Proposition**

Companies will no longer only sell one product. They must enrich their business and develop it into an integrated value chain that offers solutions to its clients. According to Johnson, Christensen, Kagermann (2008) a successful company is one that has found a way to help customers to get a job done. Once this “job” is understood, i.e. where the customer’s problem lies, the company must then offer the answer to getting it done. The better this solution is compared to that offered by competitors, the greater the customer value proposition. This lays the basis for lasting relationships with clients and will increase the perceived value by clients.

*Figure 3: Value Proposition*

![Value Proposition Diagram]

Source: Adapted from Kotler & Armstrong, 2008
**Customer**

A successful company must define exactly which customers it targets with its value proposition. The company must be willing to exclude some customer groups that competitors regard as relevant to their business. Only the focus in targeting customers will allow the company to provide the best service for its customers (Kagermann & Österle, 2006).

Firms must therefore know their customers’ wishes and direct their value proposition towards this. A detailed and precise market segmentation is useful to better understand and identify customers (Meffert, 2000, p. 183). Tomczak (2007) recommends the following criteria for conducting a market segmentation:

**Figure 4: Market Segmentation**

![Market Segmentation Diagram](image)

Source: Adapted from Tomczak (2007, p. 196)

**Communication Concept**

Every company wants to turn a one-off transaction with a client into a lasting relationship. Single transactions often incur high transaction costs (Williamson & Masten, 1995). In general, client relationships become profitable only after a critical number of transactions have occurred, since frequent transactions increase the share of wallet.

Firms must therefore attract sufficient attention to their products to keep their product in the customer’s mind. With this in mind, C2C communication becomes more important and has in some industries already overtaken the impact of B2C communication. Communities play a definite role here, since this is where potential clients meet and exchange. Technological opportunities like chat boxes have considerably widened this group’s radius in recent years.
According to Johnson, Christensen & Kagermann (2008) the revenue concept is the blueprint that defines how the company creates value for itself by offering its value proposition. Companies must optimise their revenue by either extending into or integrating secondary businesses.

A starting point in optimising revenue can be identified within secondary businesses. For example, in tourist destinations revenue can be increased by selling real estate or in car rental companies by offering a fleet of cars to corporate clients. Changes in the revenue concept can also be made to the charging structure. The firm can either charge clients up-front, like Hilti, or by usage. This reduces the risk for the firm and gives transparency to the client.

The following cube summarises various options for developing revenue concept:

Source: Adapted from Bieger et al. (2001, p. 55)
Growth Concept

Companies must constantly ask themselves how they want to secure and foster growth. An important prerequisite to generating growth is standards (Shapiro & Varian, 2000). Other growth strategies can be through extension of share of wallet within the company’s own market, or to enter into other markets. A company may also grow through multiplication or through the sale of concepts (franchising). The following figure summarises some growth strategies:

Figure 7: Growth Concept

Source: Adapted from Bieger et al. (2001, p. 55)

Competence Configuration

A crucial decision when designing the business model is the configuration of core competencies. Simply identifying core competencies is not sufficient: the company must align its core competencies to its value proposition and revenue model. When the company establishes the perfect fit between competencies and products offered, this will represent its unique advantage over competitors. Key competencies can be found in its human resources, technology, products, facilities, equipment, channels and brand. It is important to understand that core competencies are those that create value. Others are generic competencies that do not create competitive differentiation (Johnson, Christensen & Kagermann, 2008).

Osterloh & Frost (2006) summarise the configuration of competencies in the following graphic:
Organisational Form

To meet customer demand and align the value proposition and core competencies accordingly the organisation can employ a wide range of organisational designs – from flexible project organisation (tent) to a pyramid form (hierarchic organisational form). In order to choose an organisational form the firm has to determine its position in the value chain. What markets are we active in? Where are boundaries? Where is the interface with partners? The theory of firm, in particular the transaction theory, offers various explanations to define the boundaries of a firm (Williamson & Masten, 1995). In some cases, integration of at least some processes into the firm’s own value chain (i.e. producing expensive assets in-house) can represent a useful way to reduce uncertainties and limit risks. The outsourcing movement at the beginning of the 21st century has demonstrated that outsourcing does not always represent a valuable tool to limit costs. Many firms are now reducing their outsourcing to produce in-house.

There are several ways to position a firm in the value chain. The final selection depends whether the transaction interface brings heavy management demands. The following graphic summarises different positions:
Cooperation Concept

Cooperation plays a substantial part in every business model. The cooperation concept defines selection criteria for the partners and discusses key questions such as: how many partners? Big or small? Long-term vs. short-term partnerships?

Coordination Concept

Once the network has been established, the priority is then to coordinate all the partners.

The coordination of the network must take into consideration the transaction costs involved in its operation. The cooperation concept will be an extension to the classical cooperation.
arrangements (i.e. market and hierarchy) and will be positioned somewhere in between (Williamson, 1986). Cooperation can take the form of explicit and implicit contracts.

Figure 11: Cooperation Concept

Source: Bieger et al. (2001, p. 58)

2.2.4 Discussion of the Business Model Approach

As stated above we have learnt that the business model is an addition to the market-based and resource-based perspective, combining elements of the two (Belz et al., 2004; Morris et al., 2005). However, the business model should not be regarded as the ultimate tool that covers every aspect from the internal and external view of a firm (Amit & Zott, 2001; Belz et al., 2004; Chesbrough & Rosenbloom, 2001). In the following we will discuss the concept’s advantages and range.

The business model approach combines three advantages. First, a useful advantage of the business model is its scope. The model does not dig too deep but covers the most important issues in the business under observation. Bieger’s model, for example, does not attempt to discover the internal human resource payment structure, but focuses more on the configuration of resources (coordination concept). Hedman & Kalling (2003) and Rentmeister & Klein (2003) therefore argue that the business model concentrates only on vital parts of the business.

A second advantage of the model is that it reduces complexity and enables a grasp on the “big picture” (Osterwalder et al., 2005). Using Bieger’s model as a tool for analysing a business will ultimately provide relevant insights into the company. The framework investigates the key components of the company, including its environment and market. This simplicity, however, does not lack depth. In particular, the model exposes all strategic choices, even those that are not initially visible (Boehnke, 2007).
Third, the key advantage of the business model concept derives from its practical application as a tool for company analysis. In other words, the business model concept is a tool that managers can apply to analyse their business or that of their competitors. Boehnke (2007) identified four key application areas: analysis, communication, decision-making and planning. According to Boehnke (2007), the model provides a snapshot of the company, including the strategic choices made. Osterwalder et al. (2005) emphasises that this enables managers to understand the business logic. Furthermore, managers can compare their business to others and find relevant triggers for success or identify core competencies (Linder & Cantrell, 2000; Morris et al., 2005; Timmers, 2000). The model’s ability to simplify a complex business helps greatly in supporting the communication of the model. Managers can use the visualisation of the company to present it to employees, colleagues or partners (Möller & Rolf, 2003; Stähler, 2002). Another application is the model’s ability to serve as a decision-making tool. Since the model reduces complexity and maps the business and its environment, it assists in and speeds up the decision-making process. Moreover, as Boehnke (2007) argues, the model can also provide the foundation for scenario analysis and strategy formulation. Finally, as a result of its holistic approach, the business model is useful for detecting strategic issues in advance. This helps managers to test their strategic approaches and predict their impact or consequences (Chesbrough, 2010; Hayes & Finnegan, 2005).

The above list summarises three advantages of the business model concept. However, the concept also has limitations.

First, the model cannot replace a strategic plan (Magretta, 2002; Stähler, 2002). As stated above, the model contains strategic elements and detects strategic choices. However according to Chesbrough & Rosenbloom (2002), Morris et al. (2005), Osterwalder et al. (2005), these should not be regarded as sophisticated strategic plan but more as evidence of strategic choices.

Second, an advantage presented above can also represent a limitation – the scope. On the one hand it helps to simplify the business model. On the other, when comparing companies from different industries, the analysis might be biased. Because the business model concept analyses the environment only in broad terms, any comparison of companies from different industries must be informed by a detailed investigation of the environmental setting (Zott & Amit, 2004).

Third, another restriction of the concept lies in its static nature. Osterwalder et al. (2005) note that the snapshot is not dynamic and does not take into account a dynamic and changing environment.

Fourth, key dangers lie in its application, or possible misapplication. Boehnke (2007) identifies potential flaws in the application of the model: confusion of terminology, wrong assumptions about the future, failure to adapt to new conditions and neglect of contextual factors. Most practitioners speak of business models when they mean only one particular part, leaving out various other aspects (Linder & Cantrell, 2003; Rentmeister & Klein, 2003). This leads to misjudgement and biases the analysis of the business. Similarly, wrong assumptions about the
future can bias the decision-making process and be harmful to the firm. Hence, it is important to verify the assumptions (Shafer et al., 2005). Another possible flaw derives from the fact that managers consider their new business model to be optimal. Hedman & Kalling (2003) and Magretta (2002) both argue that a business model is never optimal. The dynamic environment and constantly changing conditions almost daily challenge the business model. Hence, managers must continuously improve their model and learn to adapt it to suit new conditions, incorporating contextual factors.

To sum up, it can be argued that the business model concept is a valuable tool to analyse businesses and complements existing tools. Applying the business model concept, however, must heed the restrictions of the concept. The following table summarises the advantages and limitations.

Table 13: Summary of Advantages and Limitations of the Business Model Concept

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Scope</td>
<td>- No substitute for strategy</td>
</tr>
<tr>
<td>- Simplicity and completeness</td>
<td>- Contextual and environmental settings not included</td>
</tr>
<tr>
<td>- Applicable to</td>
<td>- Static</td>
</tr>
<tr>
<td>- Analysis</td>
<td>- Flaws in application</td>
</tr>
<tr>
<td>- Communication</td>
<td>- Confusion of terminology</td>
</tr>
<tr>
<td>- Decision-making</td>
<td>- Wrong assumptions</td>
</tr>
<tr>
<td>- Planning</td>
<td>- No adaptation to changing environment</td>
</tr>
</tbody>
</table>

2.2.5 Relevance and Application of the Business Model for This Dissertation

The application of the business model concept plays a substantial part in this thesis. As indicated above, this concept is often applied to restructure and change a business. For example during the new economy, traditional firms tried to map their businesses to identify new opportunities. Or as illustrated above, Hilti used the business model concept to change their way of doing business dramatically which led to the creation of the “Tool Fleet Management System”. Traditional analysis tools such as the resource-based or market-based view are no longer sufficient to explain and integrate completely new and innovative ideas (Hedman & Kalling, 2003; Rentmeister & Klein, 2003).

In common with tourist destinations or traditional firms during the new economy, art galleries today wish to explore new opportunities. The existing art gallery model has been practised since the development of the art market. Changing market environments (i.e. globalisation, more competition, new production formats etc.) and new opportunities (for example through new technology) challenge existing business models. This demands for new and improved ways how to conduct business in the art gallery market.

To sum up, the business model concept presents a unique and practical tool to define an improved business model for art galleries. It enables both the examination of the market and an
analysis of the business configuration of firms competing in the art gallery market. This helps to identify critical success factors and to investigate how firms can operate successfully in the market. Furthermore, the model has frequently been put to the test in the real world. Consequently, we are convinced that the model’s findings are clearly practical. This will help art gallery managers to draw conclusions from it. Finally, the application of the business model concept not only helps art gallery managers. The application also contributes to the refinement of the concept and adds to its value as tool for analysis.

2.3 The Art Market

An art market has not always existed. In its early development, art solely existed and no market was formed around it. However, eventually, when a desired commodity like art is created and made available, a distribution system forms around it (Frey, 2003; Frey & Pommerehne, 1988; Frey & Pommerehne, 1990).

The international art market today is the sole mechanism for conferring value onto art (Grampp, 1989). With no real transparency, it is thus imperfect and difficult to access. There are various players involved in the market but few with a precise job description. The market is perceived as glamorous and exciting, reminding outsiders of the fashion, film or media industry (Thompson, 2008).

The following describes an attempt to map the art market, identify its key players and describe its size.

2.3.1 Art Market Composition

The art market offers a broad range of collecting, buying and selling opportunities (Robertson, 2005). The following list is an attempt to summarise items that are dealt on the market. Fifteen separate categories (e.g. jewellery or prints) were identified, based on the specialist departments at auction houses, such as Christie’s or Sotheby’s. Christie’s consists of 87 specialist departments, Sotheby’s of 84; these are clustered into the broader categories wherein art is dealt (Christie's, 2010; Sotheby's, 2010). Both auction houses offer the world’s greatest platform for dealing and hence showcase a broad range of categories. Within the categories several sectors are identified. In the category “Paintings & Drawings & Sculpture”, for example, we find sectors such as 19th Century European Paintings or German and Austrian Art or Post-War Art. Of course, this list is not complete; however, it demonstrates the breadth of the art market in general.

Table 14: The Composition of the Art Market by Category and Sector

<table>
<thead>
<tr>
<th>Category</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ancient and Ethnographic Arts</td>
<td>- Aboriginal Art</td>
</tr>
<tr>
<td></td>
<td>- African &amp; Oceanic Art</td>
</tr>
<tr>
<td></td>
<td>- American Indian Art</td>
</tr>
<tr>
<td></td>
<td>- Antiquities</td>
</tr>
<tr>
<td></td>
<td>- Middle East</td>
</tr>
<tr>
<td>Category</td>
<td>Subcategories</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Asian Art</td>
<td>Islamic Art, Pro-Columbia Art, 20th Century Chinese Art, Chinese Ceramics &amp; Works of Art, Chinese Classical &amp; Modern Paintings, Contemporary Asian Art, Indian &amp; Southeast Asian Art, Japanese Art, Korean Art, Southeast Asian Paintings</td>
</tr>
<tr>
<td>Books &amp; Manuscripts</td>
<td>Americana, Music, General Books &amp; Manuscripts, Medieval Illuminated Manuscripts, Natural History, Travel &amp; Atlases, Oriental Manuscripts &amp; Miniatures</td>
</tr>
<tr>
<td>Ceramics &amp; Glass</td>
<td></td>
</tr>
</tbody>
</table>
| Conceptual Basis | - General Furniture & Decorations  
| - House Sales and Private Collections  
| - Judaica  
| - Rugs & Carpets  
| - Fabergé  
| Great Estates | -  
| Jewellery | - Jewellery  
| - Salon Prive  
| - Watches  
| Paintings & Drawings & Sculpture | - 19th Century European Paintings  
| - 20th Century British Art  
| - American Paintings, Drawings & Sculpture  
| - Australian Art  
| - British Pictures After 1850  
| - Canadian Art  
| - Contemporary Art  
| - Early British Drawings, Watercolours & Portrait Miniatures  
| - Early British Paintings 1500-1850  
| - German & Austrian Art  
| - Greek Paintings and Sculpture  
| - Impressionist & Modern Art  
| - Irish Art  
| - Israeli and International Art  
| - Latin American Art  
| - Marine Paintings & Nautical Works of Art  
| - Old Master Drawings  
| - Old Master Paintings  
| - Orientalist Paintings  
| - Russian Paintings  
| - Scandinavian Paintings  
| - Scottish Art  
| - Spanish Paintings  
| - Sporting Art  
| - Swiss Art  
| - Victorian & Edwardian Art  
| Photographs | -  
| Prints | - 19th & 20th Century Prints  
| - Contemporary Prints  
| - Old Master Prints  
| Silver, Russian Art & Vertu | - Russian Paintings  
| - Works of Art & Icons  
| - Silver  
| Stamps, Coins & Medals | - Coins  
| - Historical Medals & Decorations  
| - Postage Stamps  
| Watches & Clocks | - Marine Chronometers & Barometers  
| Wine & Cigars | -  

Source: Adapted from Sotheby’s (2010) and Christie’s (2010).
2.3.2 Structure of the Art Market

The above list summarises all goods that are dealt on the art market. These goods are traded on four different trading levels: primary, secondary, tertiary and – as in most other markets – the illicit trade (Singer & Lynch, 1994). The following graphic summarises the international art market by category and trading level:

Figure 12: The Structure of the International Art Market by Category and Trading Level

Since this research is set in the context of art galleries, it is appropriate to narrow down the art market to one category that is relevant for the research context observed in this dissertation. This category is “Painting, Drawings & Sculpture”. The main temporal sectors within this category are divided into Old Masters, 19th Century Art, Modern Art, Post-War Art and Contemporary Art. Artprice.com defines the sectors as follows: Old Masters start with Giotto and end with the early nineteenth century (Constable). 19th Century Art can be defined by its time period, excluding all Modern Art. Modern Art starts with the Impressionists and ends at the beginning of the Second World War. Post-War Art is defined by artists born between 1920 and 1944.

Source: Adapted from Robertson (2005)

2 The fifteen separate categories are presented in terms of their susceptibility and suitability to four markets: primary, secondary, tertiary and illicit. In order to facilitate a better understanding of the art gallery market, the “Paintings, Drawings & Sculpture” category is divided into Old Masters, 19th Century Art, Modern Art, Post-War Art, and Contemporary Art and – since this category is traded on every level in the art market and a clear assignment to one trading level is therefore not reasonable – is situated between the primary and tertiary markets. Furthermore, Asian art, antiquities and Russian icons are connected to the illicit market. This does not mean that today all these goods are solely traded on illicit market; however, a great quantity appears on the market without regulation and is therefore susceptible to entering the illicit trade.
Contemporary Art describes artworks by artists born after 1945. In the following these sectors will be addressed by the term Fine Art. It is worth saying at this stage that the Fine Art sectors and the dates that separate one sector from another are often subjective and loosely interpreted.

The primary market for Fine Art deals with work that is on the open market for the first time. Unorganised individual artists with little market power provide works to galleries or exhibitions. This market is highly decentralised (Throsby, 1994). An artist’s work at this stage has not been bought or sold before. Prices develop over time and are usually not transparent to the wider public. In this market dealers and brokers operate on small margins with little or no stock (Thompson, 2008).

The secondary market describes the second layer of the market. When a work is sold there is a chance that it will eventually reappear on the market. Artists dealt with in this market are either in their late middle age (Contemporary), dead (Post-War, Modern) or long dead (19th Century, Old Master) (Throsby, 1994). Particularly, today’s fast moving cutting-edge Contemporary market changed the constitution of the secondary market in the Fine Art sector: young artists, with an unpredictable longer-term significance, are dealt with and show heavy price jumps with huge volatility. In this market the key players are established galleries with huge funds and stocks.

Very closely linked to the secondary market is the tertiary or auction market. This market is usually located in significant cities where art is traded and works are circulated. Main players here are auction houses (Throsby, 1994). Since both secondary and tertiary markets often interact, for example when a dealer offers a work at auction or buys from an auction to resell to a client, it can be argued that they have become indistinguishable from each other (Boll, 200). Hence, for the rest of this paper we will refer to both as the secondary market.

Competition factors vary between the primary and secondary trading levels. In the primary market competition is widespread because there is an oversupply of artists compared to potential buyers. Hence, prices are generally low. Throsby (1994) argues that artists in the primary market do not exert any supply-side power and are unable to restrict competition or raise prices (p. 5). The secondary market, in contrast, is more concentrated on both the buying and selling side. Few artists are successful enough to appear on the secondary market and there is a smaller number of potential buyers, since large resources are required to be active here (Throsby, 1994, p.5). Hence, key players in the market can exert great power on the rise and fall of an artist and manipulate future price expectations (Singer & Leslie, 1981).

2.3.3 Data for the Fine Art Market

Narrowing down the entire market with fifteen categories to only the Fine Art market allows a more in-depth analysis of its composition. Data can be drawn from rich auction results in the past for our identified temporal sectors: Old Masters, 19th Century Art, Modern Art, Post-War Art and Contemporary Art.
2.3.3.1 Breakdown by Art Price Growth

The art market for Fine Art has seen an increase of prices since its inception. A recent study by Bernhard (2005) combines (for the first time in art economic history) data from several sources to map the development of art prices since 1760 (i.e. the period when Christie’s and Sotheby’s started to develop a market for art). Although there are legitimate doubts concerning the quality of the data (officially data on art prices has been collected only since 1976) the graphic reveals some interesting features of the art market.

Table 15: Long-term Price Development on the Global Fine Art Market (1761-2004)

![Graph showing long-term price development on the Global Fine Art Market (1761-2004).]

Source: Bernhard (2005, p. 125)

Four distinct periods can be distinguished.

In the first period, between 1761 and 1840, the movement is lateral. This could be explained by the fact that during this time the art market was as yet undeveloped as a consequence of heavy state and church patronage.

The period from 1860 to the beginning of the First World War is characterised by an augmenting line. This demonstrates the increasing monetary value of art, fostered by an upcoming middle class that found interest in acquiring art. Flourishing world economies added to this development and increased the demand for art, which leveraged the art market.

The subsequent period to the end of the Second World War is, again, marked by a downturn in prices due to various historical events such as wars, inflation and economic crisis. Buelens and Ginsburgh (1993) argue that this development derives from a surplus of mid-priced artworks on the market. Stein (1977) agrees, arguing that in times of crisis artworks are offered to increase liquidity. The sheer oversupply of artworks pushes the art market development down (Stein,
1977). In fact, only a very small percentage of high-priced artworks kept their value during this time, since they were considered a valuable asset, almost as secure as gold (Bernhard, 2005).

In the final period, from 1950 to 2005, the art market undergoes a steady rise which is fostered by growing and improving market conditions. Globalisation and liberalisation of markets add to this development and foster the art market. This statement is supported by researchers who analysed data from 1976, the official start of data collection on art prices (Agnello & Pierce, 1996; Baumol, 1986; Buelens & Ginsburgh, 1993; Chanel, Gérard-Varet, & Ginsburgh, 1996; Frey & Pommerehne, 1988; Gérard-Varet, 1995; Grampp & Dyer, 1985). The Global Art Market Index in particular shows the most extensive and detailed picture of the years between 1976 and 2005. It is a price index that shows the growth rate of the 100 most frequently dealt artists at auction since 1975. The curve shown in the figure below gives an average price growth rate of 7.3 % p.a. from 1975 until 2005, the year that dates the end of Bernhard’s research (Art Market Research, 2006). Interestingly, the top 2% of all priced artworks developed in this period better than the majority of the other artworks in the index. The highest priced works reached a growth rate of 9.4 % p.a., while the rest (leaving out the top and lowest 10%) reached only a 5.8% growth rate.

Figure 13: Price Development on the Global Fine Art Market (1976 – 2005)

![Price Development on the Global Fine Art Market](image)

(Source: Art Market Research (2006))

Very recent development shows that after seven consecutive years of rising prices, the steady rise of the art market has abruptly stopped in 2008. The worldwide financial crisis starting in the middle of 2008 had severe consequences for the art market. The impact of the crisis is demonstrated very clearly when auction sales turnover from the first half of 2008 are compared to the second half: although the first half seemed prosperous with a half-year period record figure of $5.5 billion, in the second half this figure fell by 50% (see figure below). Another interesting fact that illustrates the downturn of the market is that in 2008 the hammer fell 1,090 times above the $1 million line, while in 2007 – when the market reached its peak – there were 1,254
hammers above this line (Artprice.com, 2009). As a consequence of smaller buying potential, and since auctioneers did not lower their estimates, unsold rates rose to 43% in the second half, compared to a long-term average of approx. 30%. At the end of 2008, the total value of global Fine Art auction sales amounted to $8.3 billion (Artprice.com, 2009). This figure was down approx. $1 billion compared to 2007, mainly resulting from a heavy loss on the US market. However, compared to the years preceding 2007, this still represents an excellent mark. For example, between 2000 and 2005, the average annual revenue total from Fine Art auction sales was between $2.5 billion and $4.2 billion (Artprice.com, 2009).

2009 ended in a disastrous auction sales turnover of $4.6 billion, slightly less than half the total in 2007 and $3.7 billion down compared to 2008. In particular the UK and the American markets suffered heavy shortfalls ($1.9 billion in the UK and $1.6 billion in the US compared to 2008). For example, the number of 7-figure auction sales fell 59% between 2007 and 2009 (1,254 vs. 529 hammers, respectively). Particularly, Contemporary has seen sharp decreases, dropping from 16% of global Fine Art auction turnover in 2008 to 10% in 2009. Auction sales turnover for more conservative and traditional artworks rose instead: Old Masters revenue from 7% to 13% and Modern Art from 44% to 48% of the global auction sales turnover for Fine Art (Artprice.com, 2010a).

However, there is light at the end of the tunnel. Prices have stabilised in the second and third quarter of 2009. In line with the improved economic situation a modest recovery of the art market began. This is symbolised by a bought-in rate down to 33% in the second semester of 2009. This positive trend continues in 2010. In particular the heavily damaged Contemporary Art market saw an increase in its price index of 5.4% in the first half of 2010 (Artprice.com, 2010b).

Figure 14: Auction Sales Turnover on the Global Fine Art Market (1998-2009)

Source: Adapted from Artprice.com (2009)
2.3.3.2 Breakdown by Country

The art market has historically been dominated by the United States since the 1950s. Led by Christie’s and Sotheby’s, the United States has long represented more than half the value of the global art market. Both auction houses operated almost like duopolies. New York and London were the epicentres for auctions that regularly generate sales over $10 million (Artprice.com, 2009). The main focus shifted from former stars of the market such as Auguste Renoir and Vincent Van Gogh to modern and post-war artists such as Andy Warhol or Francis Bacon.

In the 21st century former minor players in the art market are starting to attract increasing interest. The rapid expansion of the art market into Russia, China and India already gives an idea of the potential of these regions and might threaten the US’s dominant role. In fact, in 2008 Fine Art sales in the US generated $2.9 billion, one billion less than in 2007. The US has already fallen to second place on the market revenue map, generating 35.6 % of the global art revenue of $8.3 billion (2008), compared to 43% in 2007. The UK took over the leading position in 2008 with an increase of $271 million versus 2007. This left the UK with an annual total $2.958 billion, representing 35.7% of global Fine Art auction revenue. The Chinese came in third, with 7.2% of global Fine Art auction revenue. The European players form only a small percentage of the global market led by France (6%), Italy (2.7%), Germany (2.4%) and Switzerland (1.5%) (Artprice.com, 2009)

Figure 15: Auction Sales Turnover on the Global Fine Art Market, by Country (2008)

Source: Artprice.com (2009)

2.3.3.3 Breakdown by Sector

As indicated above, the Fine Art category can be broken down into five sectors, each varying by auction sales turnover and transaction number. The most dynamic sector of the art market is

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3 We present results for 2008 since the data we generated in our survey is also for 2008. This allows an appropriate comparison and analysis.
currently the Contemporary sector (artists born after 1945), particularly the emerging Asian artists. In 2008 it represented 16% of the global art auction sales turnover (see figure below). Contemporary Art in 2008 also attracted the highest bids: while only 3% to 3.3% of transactions in the Post-War (artists born between 1920 and 1944) and Modern sectors reached six-figure bids, this rises to 6.5% for the Contemporary sector. The same percentage of six-figure bids holds for Old Masters; however, there are fewer transactions (20,000 vs. 50,000 in the Contemporary sector) (artprice.com, 2008). Modern Art continues to generate the highest sales turnover, reaching almost 45% of the global market.

Figure 16: Auction Sales Turnover on the Global Fine Art Market, by Sector (2008)

Source: Artrage.com (2009)

Unlike Old Masters or Modern Art, Contemporary Art is the segment that the younger generations of art collectors most relate to. Over the 17 years from 1 July 1991 to 1 July 2008, the segment has posted a 132% increase in its price index, nearly five times that of other segments of the market (Old Masters, 19th Century, Modern and Post-War) (Artrage.com, 2009).
The highest impact on the price stems from the entry of new players in the market. As indicated above, in particular in the Contemporary sector, China has become a major player. Buyers from China not only generate records for Contemporary artists above the million dollar mark, but artists also move up the art market ladder at a phenomenal pace. Out of the 10 most expensive contemporary painters in the world by the end of 2008, no fewer than seven are Chinese.

2.3.4 Players in the Market

The art market is host to several players who are active in the market. In general, players engage in the field between two poles: the artists on one side, the collector on the other (Schiefer, 1998). Every player between these two poles acts as intermediary. Intermediaries can be divided into two groups – commercial art mediators and conceptual art mediators (Boll, 2009). Commercial art mediators engage in the transaction of art, either as intermediary between demand (collector) and supply (artists), or as a reference person for either side (for example, acting for an artist wanting to sell some work directly, or a client wishing to return a work). Conceptual art mediators engage in the transfer of knowledge, trying to convey the message of art to the public. As we will see later, this gives them a powerful impact on the art market.

As discussed above, players interact on two trading levels: the primary and secondary market (Robertson, 2005). The primary market deals with work that is on the market for the first time. All players are involved: the artist who produces the artwork; the commercial art mediator (dealer) who finds the collector to buy the work; the conceptual art mediator (critic) who writes about exhibitions in the gallery or museum; and the collector who buys the work. The primary market involves the highest risk for both dealer and client, since there is little information
available about the works. Dealers usually have exclusive rights to an artist’s output but contracts (if existent) are generally limited in terms of geography and duration. In a framework similar to an oligopolistic market, these actors collaborate closely and agree on prices (Zorloni, 2005).

In the secondary market every player but the artist is involved (Robertson, 2005): the commercial art mediator (dealer or auction house) who is being offered a work by a famous artist and resells the artwork; the conceptual mediator (museum) who exhibits an artist who has reached highest prices in the latest auction; and the collector who buys the artwork. Thompson (2008) argues that the Damien Hirst auction at Sotheby’s in September 2008 showed for the first time that the secondary market may be enlarged in the future and will incorporate artists as well. Hirst was the first artist to deliver a huge number of artworks (223) directly to an auction house, bypassing all intermediaries such as agents and galleries. In contrast to the primary market, actors participating in the secondary market are usually well informed about the value of artworks. Hence, this market is much more predictable and entails less risk.

The following figure summarises all players in the art market.

Figure 18: Network of Players in the Art Market
2.3.4.1 Commercial Art Mediators

Auction House

The auction house’s principal role is “to identify, evaluate and appraise works of art through its international staff of specialists, to stimulate purchasers’ interest through professional marketing techniques, and to match sellers and buyers through the auction process” (Sotheby’s, 2009, p. 2). In this sense, the auction houses have taken the monopoly away from the tastemakers and experts and developed to become the main authority in dictating fashion and trends (Zorloni, 2005). Over the past years auction houses have also taken up an important anchoring function in the art market. Since prices paid for an artwork are publicly available, auction prices serve as a guide to and indication of an artist’s value and bring transparency to the market. These advantages, however, come with certain risks: researchers have found that artwork auctioneers at Christie’s and Sotheby’s reach higher average hammer prices than their competitors (Renneboog & Van Houtte, 2002). Additionally, the image of an artist can be completely distorted due to price volatility and other outside factors. Finally, the owner cannot be selected (Hutter, Knebel, Pietzner, & Schäfer, 2007).

The auction house deals with a wide variety of items, including Fine Art, decorative art, antiques, jewellery and collectibles. (For a summary of categories and sectors please refer to section 2.3.1.) Objects auctioned by the auction house are usually unique and valuable.

Auction houses’ revenue derives from their position as intermediary between seller and buyer. They sell property as agent of the consignor, earning commission from both sides: the buyer for the property purchased (buyer’s premium) and the seller (“seller’s commission”). Both buyer’s premium and seller’s commission represent a proportion of the hammer price of the auctioned item. This form of income is the major item in any auction house’s consolidated revenue statement. For example, at Sotheby’s commission revenue in 2008, 2007 and 2006 accounted for 91%, 83%, and 83% respectively of Sotheby’s consolidated revenue (Sotheby's, 2009). In order to increase their turnover and attract new customers, auction houses occasionally guarantee a minimum price (an “auction guarantee”). When the artwork sells for less than the minimum guaranteed price, the auction house must fund the gap between the hammer price and the amount they guaranteed to the seller. If an item does not sell, the auction house guarantees to pay the full amount of the auction guarantee but reserves the right to sell the item in return. In some cases, auction houses work together with partner firms in order to reduce the financial risk under auction guarantees. Partners may also assist the auction house, for example in promoting or estimating the property to be auctioned (Sotheby’s, 2009, p. 2).

The business of auction houses has changed over the past thirty years as consequence of a different customer group: while the main auction house clients before the 1970s were art dealers, today, since auction houses have started to publish estimate ranges for each piece, retail

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4 This might explain why Christie’s and Sotheby’s abused their position of power in the 1990s to fix their buyer’s commission at a very high level.
customers now play a prominent role in auctions. This practice reduced information asymmetry and helped inexperienced retail customers to participate in auctions (Mei & Moses, 2002, p. 2411). Furthermore, auction houses started to engage in a number of related activities, including financing and dealing (Dossi, 2007). The finance segment of an auction house provides selected collectors and dealers with financing. Generally, securities for loans are works of art that the auction house either has in its possession or permits the borrower to possess (Sotheby’s, 2009). The dealer segment acts like the secondary market activity of art galleries. It sells works directly to buyers (such as private collectors and museums) or serves as intermediary in private purchases (Sotheby’s, 2009). As auction houses increasingly foster this segment, some have started to overtake existing brokers.

Competition on the auction market is severe, since any owner of an artwork has four options: sale or consignment to, or private sale by, (1) an art dealer, (2) an auction house, (3) a museum or (4) a sale through an internet-based platform (Sotheby’s, 2009). Consequently, there have been a lot of very recent mergers in the auction market. Bonhams has acquired Phillips UK and Butterfields, the West Coast American auction house. In 2002, Bernard Arnault, CEO of Louis Vuitton, Moet Hennessy (LVMH), sold his stake in Phillips, de Pury and Luxembourg to Simon de Pury and Daniella Luxembourg. Daniella Luxembourg then left the partnership and established a gallery in Switzerland (Thompson, 2008). In October 2008, Russian luxury retail company Mercury Group acquired the majority share in the former number three auction house worldwide, Phillips (Varoli, 2008). Today, Phillips is a small specialist auctioneer with offices in New York, London, Geneva, Paris, Munich and Berlin. Christie’s, one of the two leading auction houses in the world, also went through troubled waters lately (Thompson, 2008). In 1998, Francois Pinault, head of Pinault-Printemps-Redoute, bought Christie’s and took it into private ownership. According to the press articles (Walsh, 2008), Pinault has since considered selling the auction house again.

The structure of the auction market is highly concentrated on the two leading auction houses. For the Fine Art sector the two largest auction houses, Christie’s and Sotheby’s, generated auction sales turnover in 2008 of $2.9 billion and $3.3 billion respectively. Together the two auction houses generated 73% of global Fine Art auction revenue from only 16% of global transactions (Artpiece.com, 2009). Together the two houses accounted in 2008 for more than 87% of the ultra top end of the market (929 of the 1,064 sales above the million-dollar mark were auctioned at one or the other) (Artpiece.com, 2009). Both auction houses are represented worldwide, Christie’s with 57 offices in 32 countries and salerooms in major cities around the world, and Sotheby’s with more than 100 offices around the world with approximately 1,555 employees (Sotheby’s, 2010; Christie’s, 2010). The top 67 auction sales in 2008 were generated at Christie’s or Sotheby’s, and the gap to the next auction house is wide. Only at position 68 do we see Phillips de Pury. Furthermore, the three next largest auction houses (beta auction houses Phillips de Pury, Bonhams and China Guardian) accounted only for a combined 10% share in the Fine Art auction market (Mc Andrew, 2010).
In general auction houses can be classified into four levels according to their annual sales results and share of the global Fine Art auction sales turnover.

Table 16: Categories and Description of Auction Houses

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>Sotheby’s and Christie’s</td>
</tr>
<tr>
<td>Beta</td>
<td>Auction houses second in national markets to Sotheby’s and Christie’s but with international reach: Phillips de Pury, Bonhams, China Guardian, Dorotheum, Finarte, Tajan</td>
</tr>
<tr>
<td>Gamma</td>
<td>Houses that have national standing</td>
</tr>
<tr>
<td>Delta</td>
<td>Regional and local auction houses</td>
</tr>
</tbody>
</table>

Source: Adapted from Robertson (2005)

**Art Galleries**

Art galleries serve as gatekeepers to the world of Contemporary Art, determining which artist will be shown and who will not (Thompson, 2008). Their job is to organise the show and promote the artists with collectors, art writers and museum curators (Schiefer, 1998). Gallerists\(^5\) can be described as service providers whose job is to “select, interpret, educate and signal with the aim of generating the belief that the appreciation of a particular set of new artworks is constantly rising” (Hutter et al., 2007, p. 249).

Galleries organise in their gallery spaces regular exhibitions, which are open to the public. All exhibited works can be purchased; in some cases galleries also rent out some works. Each gallery represents between 5 and 25 artists who might be shown in a single or a group show. In order to deal with high costs of opening a gallery and an initial period of negative cash flow, gallerist seek the patronage of a wealthy individual (Seegers, 2001). According to Seegers (2001) and Thompson (2008) it is conventional wisdom in the art industry that four out of five new Contemporary Art galleries fail within five years. Ten per cent of galleries established for more than five years also close each year (Krips & Fesel, 2001).

The relationship with artists is in many cases on a friendship basis. Only very rarely has a gallerist written an agreement with an artist to cover mutual obligations. Some galleries use a written letter of understanding that describes what each side has to do in the partnership (Geuting, 2001). Very often, however, galleries operate on a handshake and there is no written agreement (Schmickler & Fritsch, 2001). Klein (1994) describes the relationship as patronage. With or without a contract, the artist almost always tries to have an exclusive relationship with a single gallerist in each country. Only rarely do artists have several dealers in one country, as dealers do not like to invest in promotional efforts that may benefit other dealers selling the same artist.

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\(^5\) When we refer to gallerists we equally refer to women and men. Being aware of gender neutral language, for example the pronoun "he" may be replaced with "she" throughout the paper.
Art galleries follow a two-sided revenue model (Fesel, 2008). First, they are engaged in the primary market. As discussed above, primary sales represent the first time a work of art is sold. It is the business that is usually operated at the front, in the exhibition room. The gallery either sells an artwork from its current exhibition or from its stock. In both cases, it is industry standard that the sale price is shared on a 50:50 basis between the gallery and the artist. If the gallery acts as a secondary gallery and shows an artist represented by another gallery, the primary (original) gallery receives at least 10% of each sale (U. Klein, 1993). In some cases the industry standard of 50:50 can be waived; Thompson (2008) reports that Gagosian and White Cube take only a 30% commission on Damien Hirst’s sales. When organising an exhibition, galleries try to lose as little money as possible. Hence, showing a new artist for the first time is usually unprofitable: gallery maintenance expenses are as high as for any other show, but promotion costs for a new artist are higher and sales probably lower (Seegers, 2001). Interestingly, prices in galleries are subject to negotiation. In most cases, galleries are willing to give a discount on the price – even for an upcoming artist and an unknown buyer. Blomberg (2008) reports that even higher discounts are offered to museums or famous collectors in order to place the work in some elaborated environment that leverages the artist’s profile. Robertson (2005) highlights the reverse effect: when a collector buys an artwork from a dealer he also buys in the trader’s reputation, taste and understanding of the market. In a sense a collector could argue that he bought a Jopling or White Cube, rather than a relatively unknown artist from this gallery.

Second, in addition to an art gallery’s commitment in the primary market, some dealers engage in the secondary market. Secondary market sales refer to all succeeding resales of a work. Similar to an auction house, an art gallery transfers artworks to clients. The only difference is that while an auction house acts more as wholesaler, the gallery can be linked to a retailer (Thompson, 2008). The gallery holds several roles in the secondary market: either it can represent a collector and buy artworks under the collector’s name. Alternatively, it can emerge as collector and investor, trying to buy an undervalued artwork which it can resell. Furthermore, the gallery may act as protector to its artists: when an artwork appears at auction, a dealer may protect prices by trying to build up the price to the level of the gallery price.

Art gallery owners have no particular background education, since no test or certification is required to become a gallerist. Top dealers reach their status not by excellent business or art history degrees (although some have them). Rather they have operation capital, excellent contacts, good judgement in selecting and finding artists, aggression when they approach potential buyers and savvy in promoting their brand (Thompson, 2008).

The gallery market is highly fragmented and consists of several thousand art galleries worldwide. Mc Andrew (2010) speaks of 375,000 recorded galleries (including dealers) who are active in the fine and decorative art and antique market worldwide. Interestingly, like the auction market, only approx. 3% of all galleries (art dealers included) account for 50% to 75% of the total turnover by value by art galleries (Mc Andrew, 2010).
Compared to auction houses, art galleries have the following key advantages over auction houses (in reference to Mc Andrew, 2010):

- Their mark-up can vary
- They exercise ultimate control over the price and supply
- They can work with complete confidentiality
- Their size (compared to an auction house) can allow more flexibility

Robertson (2000) and Thompson (2008) have tried to classify art galleries into categories. Robertson judges galleries across four criteria: whether they set trends, achieve top prices, use sophisticated promotion techniques for their artists and organise museum quality exhibitions. Thompson judges them according to the founder, looking both at personality and at the level of industry expert and client networking.

Interestingly, neither author explicitly highlights management capabilities as a core tool in distinguishing one gallery from another. Since we hypothesise that the degree of professional management is positively related to the performance of art galleries, we introduce a management component. This not only includes the description of management practices (according to Bieger’s dimensions), but also financial performance data, as well as working to ethical standards. Based on the authors’ findings and ours, four characteristics that distinguish galleries can be identified, divided into two central perspectives: the internal view and the external view.

The internal view contains two of the four characteristics: those that relate to the founder of the gallery and the internal structure. The founder of the gallery plays an extremely important part in the gallery’s success. As in any very small business, the business revolves around the founder. Furthermore, every successful gallery must be in command of a sophisticated management structure to promote the artist accordingly. This criterion also includes the financial performance.

The external view, comprising the other two characteristics, is more outwardly directed. It describes characteristics that are related to the artists and the network of partners, clients and industry experts.

To sum up, the four characteristics are the following: from the internal view, the personality of the founder and a sophisticated internal management to best promote the artists; and from the external view, the selection of artists and network of partner, clients, and industry experts.

The configuration of these characteristics decides the status of the gallery. The following table gives an overview of the categories, characteristics and description of art galleries:
<table>
<thead>
<tr>
<th>Category</th>
<th>Characteristics</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha “branded</td>
<td>Internal view:</td>
<td>- huge global brand awareness</td>
</tr>
<tr>
<td>gallery”</td>
<td>- founder widely considered as great personality by clients and artists, attracting much attention</td>
<td>- trendsetter with top prices (even for unknown artists)</td>
</tr>
<tr>
<td></td>
<td>- sophisticated management structure</td>
<td>- key player on secondary market</td>
</tr>
<tr>
<td></td>
<td>External view:</td>
<td>- participation at Art Basel, TEFAF, Frieze and exhibition in best museums worldwide</td>
</tr>
<tr>
<td></td>
<td>- primary market: highest quality art of dead and living artists secondary market: considerable and certain resale / investment value</td>
<td>- exhibition reviews in New York Times, ARTnews</td>
</tr>
<tr>
<td></td>
<td>- intimate and large group of top collectors worldwide and partnership with best museums/galleries worldwide</td>
<td>Examples: Gagosian Gallery, White Cube, David Zwirner, Pace Wildenstein, Mai 36</td>
</tr>
<tr>
<td>Beta “mainstream</td>
<td>Internal view:</td>
<td>- nationwide brand awareness</td>
</tr>
<tr>
<td>gallery”</td>
<td>- founder considered as personality by clients and artists</td>
<td>- can be a trendsetter (if successful, artists transfer to Alpha gallery)</td>
</tr>
<tr>
<td></td>
<td>- decent management structure</td>
<td>- participation at Art Basel (small booth), FIAC, ARCO, Art Cologne, Art Forum Berlin and exhibition in best museums nationwide</td>
</tr>
<tr>
<td></td>
<td>External view:</td>
<td>- exhibition reviews occasionally in national newspapers</td>
</tr>
<tr>
<td></td>
<td>- primary: high quality artworks by dead and living artists</td>
<td>Examples: Hans Meyer Galerie, Sprüth / Magers, Thomas Ammann, Nächst St Stephan</td>
</tr>
<tr>
<td></td>
<td>secondary: highly likely to have potential resale value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- small group of good collectors nationwide and partnership with museums/galleries nationwide</td>
<td></td>
</tr>
<tr>
<td>Gamma “high</td>
<td>Internal view:</td>
<td>- little brand awareness</td>
</tr>
<tr>
<td>street gallery”</td>
<td>- Low-key personality of founder</td>
<td>- no trendsetter</td>
</tr>
<tr>
<td></td>
<td>- “intuitive” management structure</td>
<td>- participation at satellite art fairs, such as Scope, Liste, Red Dot Art Fair</td>
</tr>
<tr>
<td></td>
<td>External view:</td>
<td>- exhibition reviews in regional newspapers</td>
</tr>
<tr>
<td></td>
<td>- primary: art rejected by Alpha and Beta galleries (mixture of upcoming/emerging artists and established artists (second class)</td>
<td></td>
</tr>
</tbody>
</table>
Private Art Dealers and Adviser

Another type of dealer exists in the art market – the private art dealer or art adviser. They operate from a small office, usually based in major cities, as an agent in the secondary market or an adviser to a collector. In fact, Thornton (2008) emphasises that private art dealers operate almost exclusively in the secondary market and only rarely get in touch with the primary market.

The daily work of dealers is to search within their network for interest in one particular artist. Then they call anyone they know who has purchased this artist and asks if the work might be for sale, usually offering an attractive price. If the seller agrees they add a percentage of the price on top and resell to a waiting client (Thompson, 2008).

The private art dealer’s reputation in the market is not the best one: Thompson (2008) describes private art dealers as “part broker, part tastemaker, part tour guide and part shrink” (p. 45). Furthermore, gallerists do not like them very much, since they compete with them over the same clients; gallerists have to pay dealers for bringing in these clients; and dealers do not support upcoming artists (Lindemann, 2006).

Their income is generated through a commission of 2%-10% of the value of art involved and through a consignor’s fee of 2-20% from the gallerist (Thompson, 2008).

There is no formal education for dealers. Usually they were once auction house specialists, curators or academics. Their key resource is their huge network of connections, expertise and focus.

The art dealer market is highly fragmented, with no relevant data giving a number.
Compared to auction houses and art galleries, dealers have following key advantages (in reference to Robertson, 2008):

- They are more flexible
- Their overhead costs are lower
- They have fewer duties and less conflict with artists
- They can set their own margin and are even less transparent.

Ancillary Art Business Service Providers

In the art market, a range of supplementary providers offer complementary services. This fosters the relationship between artists and collectors and adds value to the work of commercial intermediaries.

If buyers seek to establish a collection there are several organisations in every country that support them in these endeavours. Organisations like the Art Fund (formerly the National Art Collections Fund) or the Contemporary Art Society, both in the UK, offer programmes for individuals interested in contemporary collecting, development schemes for curators, initiatives to build up public collections and consultancy services related to collecting (Contemporary Art Society, 2009). For individuals who are willing to invest a huge amount of money in art, international banks and consultancies offer specialised services. Up to its closure at the beginning of 2009, UBS Art Banking was the leading institution to provide wealthy clients with a full service around their collection by consulting, investing and selling (Capgemini & Merrill Lynch, 2006). A similar service is provided by firms like Fine Art Wealth Management, a London-based consultancy headed by Randall James Willette, former head of art banking at UBS. This company advises private banks on integrating art into their overall wealth management strategy for private clients.

Besides advisory services, some companies have emerged on the market that focus on the financial returns on investing in art. The most prominent is Philip Hoffman’s The Fine Art Fund. Its objective is “to capitalise on art market expertise to build long-term capital growth for investors, combined with personal enjoyment of works of art by some of the world’s greatest artists created over the last six centuries” (The Fine Art Fund, 2009). The German equivalent Art Estate, which made a very promising start in offering a fund for highly selective art, shut down its operation in 2008.

Another crucial and indispensable player in all art deals is the insurance company. Insurance providers such as AXA, Chubb or Hiscox have specialist departments in providing insurance for artworks. They insure everything “from the Cycladic to the Contemporary, from musical instruments to memorabilia, indeed anything that is bought and sold at a Fine Art auction house or in any gallery around the world” (AXA Art Insurance Limited, 2009). In difficult cases they refer to their partner network, for example in the case of a problematic valuation for a work. Gurr Johns, for example, specialises in the valuation of artworks, operating independently of any auction house or dealer.
In order to enhance and improve marketing efforts, some public relation firms have specialised in promoting art events. Sue Bond or Cassleton Elliott “represent a diverse range of clients within the art world, including museums, stately homes, auction houses, charities, award ceremonies, publications, art galleries and touring exhibitions” (Robertson, 2008, p. 37).

Issues such as ownership, authenticity or theft are dealt with by several service providers and international organisations. The Art Loss Register, for example, is “the world’s largest private international database of lost and stolen art, antiques and collectibles” (Art Loss Register, 2009). Their mission is to focus on due diligence, recovery and prevention of art theft and fraud. The International Foundation of Art Research (IFAR) offers a database that contains information on authenticity and history of an artwork.

A selling platform that has attracted more and more attention recently is art fairs. Art fairs play a highly relevant part in art gallery revenue today. Art fairs are a meeting place where dealers set up booths for a short period of time (usually 4-5 days) to display art to collectors, institutional buyers and the press. The leading art fair for Old Masters is the European Fine Art Fair (TEFAF) in Maastricht. Entry into a leading art fair is extremely difficult and applications are reviewed by a selection committee. Robertson (2005), hence, claims that inclusion in Art Basel acts as the market’s stamp of approval. In an interview with Artinfo (2006), famous New York art dealer Jeffrey Deitch highlights the importance of art fairs: “Whether you think the increasing impact of fairs is good or bad, one thing is clear. This is the way things are moving and you have to run with it as a gallery owner […] But even though I might prefer the semi-old fashioned way, you simply must do art fairs”. Like Deitch, a lot of dealers have realised the importance of art fairs as an extension to selling works only in their gallery. Consequently, for Contemporary Art, during the boom of the market, several art fairs emerged on the ground, with new satellite fairs organised around the major art fairs. For example, in 2009 six art fairs were organised around Art Basel, all targeting more or less the same people.

2.3.4.2 Conceptual Art Mediators

Critics

It is the art critic’s job to focus the art viewer’s interest. In general, critics are active in all markets but most prominent in the contemporary market to which final value has yet to be awarded (Thompson, 2008).

In general there are two types of art writer: journalists and traditional critics. While journalists write more for the art section in mass media productions, art critics usually write for a focused audience in specialised magazines (Thompson, 2008). Art critics also have two other functions: firstly, they are often being used to attract new advertisers. Many publications review only exhibitions held by advertisers (Dossi, 2007). Secondly, critics write catalogue essays for galleries or auction houses. Since their essays are reviewed and paid for by the gallery, the critic’s objectivity is limited to a certain extent. This is confirmed by David Lee, editor of the arts news sheet, The Jackdaw. In Robertson (2005) he confirms that critics only review
exhibitions in metropolitan art centres, wealthy arts foundation, or galleries where they receive either hospitality or payment. Venues outside the centre with smaller media budgets are therefore often left out. Robertson (2005) argues: “It all has very little to do with efficient or comprehensive reporting and much more to do with intellectual and physical indolence” (p. 27).

The art critic’s role and influence on the market should not be overrated. As Thompson (2008) argues, critics should be major art-world players due to their close relationship with dealers, artists and art fairs. However, “they are not” (p. 227). The impression that art writers can “make or break” an artist’s career is outdated. Thompson (2008) quotes senior art critic from New York’s Village Voice and three times nominee for the Pulitzer Prize for criticism, Jerry Saltz: “At no time in the last fifty years has what an art critic writes had less of an effect on the market than now. I can write that work is bad and it has little-to-no effect, and I can write it is good and the same thing will happen. Ditto if I don’t write it at all” (p. 228). This can be illustrated with an example. On 16 April 2006 a four-page review on Cecily Brown appeared in the Sunday Times Culture magazine. Waldemar Januszczak’s review, accompanied by a two-page colour reproduction of one of Brown’s works, began with: “Cecily Brown could be the best British painter around” (Januszczak, 2006). This praise of a relatively unknown artist dragged only 100 new visitors into Gagosian gallery, three visitors a day (Thompson, 2008). This disillusioning statistic demonstrates how little impact art critics possess – even when they publish in the best newspaper.

**Art Museums**

Considered as temple of the human spirit, public art museums are important civic institutions (Carrier, 2006). At the same time, art museums are important business organisations and exhibit a lot of impact on the art market. Museums act as gatekeepers to the premium level in the art world since they seem to act independently from the art world and always have a reputation for being objective in their judgement (Thompson, 2008). Works shown in museums are regarded as “museum quality” and museums serve as the final repository for validated reputation. Museums also captivate with memorable architecture to attract tourism. The best example is the Guggenheim in Bilbao or the Walker Art Center in Minneapolis designed by Swiss architects Herzog & de Meuron.

Recently, Contemporary Art museum’s role has shifted and their role in the art market has become increasingly important since directors can outplay their impact with single actions. It has become common practice for art museums to buy artworks of living artists. A mid-career retrospective by a famous museum can leverage the sale price of an artwork (U. Klein, 1993). The curator thereby circumvents the forty-year waiting period to test the value of the artwork and replaces it with his own taste (Kunze, 2002). Many collectors use this dynamic of the market and on the one hand open their own museums – for example Ron Lauder and Neue Galerie in New York, Bernard Arnault and the Louis Vuitton Foundation in Paris, or Eli Broad and the Broad Contemporary Art Museum in Los Angeles. On the other hand they exploit existing museums by
showing artworks on loan and then using the increased reputation of the work to sell it in an auction. For example in 2006, a work by Huang Yong Ping was on loan to a retrospective of his work at the Walker Art Museum in Minneapolis. After the exhibition it was sold at auction for $168,000, almost three times its estimate.

Increasingly museums are funded by private/public partnership. In fact, museums depend on donations by collectors. A look at their budget reveals this: the Museum of Modern Art in New York (MoMA), America’s seventh-largest museum by budget, receives only $281,000 in government support toward its $160 million operating budget (Museum of Modern Art, 2008). The rest is covered by admission, membership fees, investment income, grants and contributions and auxiliary activities. In detail, the cost of each visitor to MoMa is $50; the admission fee is only $20, while only half of the visitors actually pay. The $30 shortfall is covered by the cafeteria and bookstore, gift shop, restaurant etc. Interestingly, the annual budget of $160 million contains only $18 million for acquisitions and $27 million for curatorial expenses, while the rest is spent on less art-related activities: $50 million on cost of sales/auxiliary activities, $27 million for building expenses and insurance, $17 million for administration (Museum of Modern Art, 2008).

Another aspect of the relationship between museums and Contemporary Art is the globalisation of museums (Thompson, 2008). Guggenheim is the leader in this field. Borrowing from the franchise concept, Guggenheim signed deals with cities around the world to open a branch financed by the city government (Bilbao) or the sponsors (Berlin, Deutsche Bank).

2.3.4.3 Poles

Artist

Artist as profession dates back to Michelangelo. He was considered as skilled in painting and created art as an occupation. Rembrandt added the market component to it, trying to push his career by promoting his reputation. In the 1960s artists developed into media stars, putting the focus on the artist as a person, rather than solely on the artist’s work. Jeff Koons’ marriage with La Cicciolina is a good example to demonstrate an artist’s exposure to the media and the public’s increasing interest in the artist’s life. Andy Warhol is perhaps the best known artist as a media star. These self-promotional marketing practices had an impact on artists’ reputations and are still today practised by many artists in an effort to jumpstart their career (Robertson, 2005; Boll, 2009).

Researchers, like galleries, have tried to classify artists into distinct categories. As in the art gallery classification scheme, there are also rapid transitions between each category. For example, Mature/Emerging and Successful artists can in a short period of time become “Superstars”. Again, the question arises what distinguishes a “good” artist from a “bad” or “unknown” artist. Since there is no clear definition of this, nor has there been any research so far on this topic, following a list of characteristics is not enough. However, it is a good working tool for classification purposes.
The characteristics that might differentiate artists can be grouped into internal and external viewpoints.

Internal characteristics relate to the artist’s personality and vision. As with every other entrepreneur in “normal” business, an artist’s personality has to be unique in its own way. Likewise, the work of an artist must stand out from the mass, for example by being better, more original or different to existing works. The external view describes how artists interact with their environment and if they can rely on a great network of partners / supporters and colleagues. Further, the external view describes how the environment reacts to the artist. There have been various incidences where the environment was not ready for an artist and the artists became famous only after death.

To sum up, the characteristics are as follows. From an internal view: (1) personality of the artist, (2) creativity, originality, vision of the work; from an external view: (3) network of partners/supporters/colleagues, (4) environment’s readiness. The configuration of these characteristics decides the status of the artist. The following table which gives an overview of the categories, characteristics and description of artists:

**Table 18: Categories, Characteristics and Description of Artists in Contemporary Art**

<table>
<thead>
<tr>
<th>Category</th>
<th>Characteristics</th>
<th>Description</th>
</tr>
</thead>
</table>
| Superstars                    | **Internal view:** - exceptional personality  
                             - visionary, creative, original work, exemplar for a generation  
                             **External view:** - extensive network of partners / supporters / colleagues  
                             - Environment has embraced artist’s work and adores it | - Extended top 100 list of Contemporary artists (for example according to Manager Magazin Kunstkompass)  
                             - seven-figure income  
                             - premium lots at major evening auctions  
                             - single shows at Art Basel, Tate Modern, Centre Pompidou, Whitney, Guggenheim, Martin Gropius Bau  
                             - participation in group shows such as Venice Biennale  
                             - purchase of work by museums such as Tate Modern and best private collectors  
                             - review in “Art in America”, “Flash Art”, Parkett”, “Kunstforum”  
                             - various catalogues with premium publishers, distributed worldwide  
                             Examples: Gerhard Richter, Bruce Nauman, Damien Hirst, Ed Ruscha, Jeff Koons |
| Mature/Emerging and Successful| **Internal view:** - personality perceived as special  
                             - visionary, creative, original work | - mixture of upcoming/emerging artists and established artists (second class), recognised reputation, stable sale record  
                             - five – six-figure income |
| **Beta gallery** | **External view:** | **- secondary lots at auctions, stable prices**
**- participation in group shows at national museums, single shows in regional museums and galleries**
**- purchase of work by national museums and important collectors**
**- review in national art journals**
**- catalogues with publishers, distributed nationwide**
**Examples:** Imi Knoebel, Peter Lindbergh, Markus Oehlen, Guan Yong |
| | **- network of partners / supporters / colleagues**
**- Environment has embraced artist’s work** |
| **“High Street Artists”** | **Internal view:** | **- respected reputation**
**- income supplemented through teaching, writing or art related jobs**
**- small secondary market, few auction records, varying pricing**
**- participation in group shows in regional museums, in local galleries and museums**
**- some newspaper reviews**
**- some catalogues** |
| ➔ represented by Gamma gallery or Delta gallery | **- personality**
**- either visionary, creative or original work** |
| **External view:** | **- low network of partner / supporters / colleagues**
**- Environment recognises artist’s work** |
| **“Vanity Artists”** | **Internal view:** | **- little reputation, no clear profile, studio is living room**
**- very little income through art**
**- no secondary market, no resale value**
**- participation (very rarely) in local art fairs or local exhibition spaces**
**- few exhibition reviews in local newspapers**
**- most catalogues produced individually or on CD** |
| ➔ represented by Delta gallery or artist-curated show or Producer Gallery or none | **- low key personality**
**- not visionary, creative or original work** |
| **External view:** | **- no network of partner / supporters / colleagues**
**- Environment is overloaded with artist’s work** |
| **“Poor dogs”** | **Internal view:** | **- no reputation**
**- no income through art**
**- searching for representation**
**- no secondary market, no resale value**
**- completely out of the market**
**- organise exhibitions themselves or through friends**
**- reviews in some local magazines**
**- no catalogue but website or CD** |
| ➔ no representation | **- No personality visible, no profile**
**- Work shows no originality, vision or creativeness** |
| **External view:** | **- no network of partner / supporters / colleagues**
**- Environment considers works not as art, unsellable or boring** |
To give an idea of the size of each group, Thompson (2008) analyses the London and New York market. According to him there are 40,000 artists resident in London, and about the same number in New York. Of a total of 80,000, only 400, i.e. 0.5 %, are in the “Superstars” category. The next level down are “Mature/Emerging and Successful” artists adding up to 4,800 artists, i.e. 6 %. Below them are “High Street Artists” that add up to 9,200, i.e. 12 % of total artists in New York and London. The next two categories group the vast majority of artists: “Vanity Artists” account for 32,000 artists, i.e. 40 %, while the rest, the “Poor Dogs”, represent the biggest group with 33,200 artists, i.e. 41.5 %.

Today, the number of artists increases steadily. Benhamou (2003) claims: “Since Diplomas have a low signalling capacity, people enjoy ease of entry to careers, especially those in the visual artists; this is a source of oversupply” (p. 256). He adds that artists are irrational in their choice of profession, because of the low rates of success (Benhamou, 2003). High rewards for successful artists, as well as publicity given to high prices paid for Contemporary Art, attracts young risk-takers to become artists (Schiefer, 1998). Thompson (2008) speaks in economic terms: “Greater perceived demand for art results in greater supply of art producers” (p. 64). In addition, those who are already exhibiting at galleries but are unsuccessful are reluctant to drop out since they aspire to the great breakthrough.

Figure 19: Categories of Artists Living in New York and London

The career of an artist can usually be separated into three distinct phases (ICG Culturplan, 2010): the shopping phase, the decision phase and the final phase.

(1) The shopping phase is characterised by young artists that show intense exhibition records at varying galleries (with first solo shows), work extremely hard, are funded by scholarships and hope to be spotted by an Alpha or Beta gallery (Robertson, 2005; ICG Culturplan, 2010).
During their education years artists try to enlarge their network of potential buyers, gallerists or conceptual art mediators. Their professors could be of help, as well as their own marketing efforts, such as a webpage, self-organised group shows, participation in and winning of awards, scholarships, etc. After graduation or when artists feel ready they enter the art market. In this phase usually artists are represented by various galleries and it is hard to distinguish one from another. Very few art students will directly be represented by an Alpha gallery. Instead, most exhibit in Beta galleries to Delta galleries or artist/curator shows. Usually, gallery exhibitions are only based on loose bonds, because art gallery owners try to test new artists. Very rarely, artists will get a solo show in an Alpha to Gamma gallery in the three years subsequent to their graduation (Thompson, 2008). More often, they will participate in group shows, not only in one gallery but in affiliated galleries preferably abroad.

An alternative way to start a career is without any art education as freelance artist. They start off exhibiting their work in mostly non-commercial spaces and reach a greater audience. Artist-curated shows are organised by fellow artists that use their own network to invite guests to the art exhibition and try to sell art (Blomberg, 2008). A producer gallery is the most recent result from this development, where artists act as their own agent and take over the art gallery manager’s job, including renting a gallery, doing the promotion and selling art. Artist-curated shows, as well as producer galleries, provide the artists with a platform to show their art and be spotted by a gallery.

(2) The second phase, the decision phase, is characterised by more mature artists that have found their role in the art market and their representation (or not). In this phase it becomes easier to differentiate artists (Robertson, 2005; ICG Culturplan, 2010).

By the age of around 35 artists have shown at various galleries. A very small fraction of artists are able to engage in closer relationships with Alpha or Beta galleries. This is usually based on an artist’s performance in the shopping phase. In case of good sales and an excellent track record with other galleries, an Alpha or Beta gallery owner will continue to work with them and intensify the relationship (Blomberg, 2008). Being represented by an Alpha or Beta gallery paves the way to becoming a “Superstar” or “Mature /Emerging & Successful Artist”.

The great majority, however, stagnate in Gamma and Delta galleries because they did not manage to convince leading galleries in the shopping phase. When only few works are sold, the gallery owner will no longer continue the relationship and will ignore the artist in future gallery programmes. Artists will then try to find another gallery that will represent them. In fact, Thompson (2008) calculates that “two out of five new artists will no longer be showing in a Gamma gallery five years after their first show; two will have been marginally successful, and only one will be quite profitable for the gallery” (p. 47). Those that have been unsuccessful either find new representation with a gallery in the
same category or move downwards to a Delta gallery. Unfortunately, artists not belonging to the top two groups usually do not make enough money from their career as professional artists. Thus, “High Street” and “Vanity Artists” must engage in side jobs to fund their work. Although these jobs are only temporary, they are responsible for the greatest percentage of an artist’s income.

(3) The final phase is characterised by a great percentage of artists abandoning full-time work as artists, while a small fraction actually makes a living from it and continues their presence in the art market even after death.

At the age of approximately 45 a very small fraction of artists are represented by an Alpha or Beta gallery. Once an artist is in a Beta gallery, he will ultimately try to be spotted by an Alpha gallery, since this is the door-opener to the Olympus of the art world. “Mature Artists”, represented by a Beta gallery, are often lured away by a branded (Alpha) gallery that guarantees sales (Thompson, 2008; Robertson, 2005). Through national Kunsthallen and major biennales in Western Europe, the artist will try to climb up the latter to become a Superstar with works dealt in the primary and secondary market. This will continue even after death.

The majority of artists, however, cannot survive from the income through art. Scholarships and other state funding possibilities or awards are running out because they are usually only for artists below 45. Artists that aren’t part of the first two groups will continue financing their living through side jobs, or eventually decide to stop their career as artists.

Although data on artists is only very sparse, a 2006 study by the German Council of Culture involving 417 self-employed artists (all members of a union) from all four sectors of the arts (music, literature, Fine Art, performing arts) shows a similar picture (Dangel & Piorkowsky, 2006). In Germany approximately half of all those in the Fine Arts earn less than €1,300 per month from their activities as artist. Nearly a fifth of Fine Arts practitioners earn less than €511 a month. Sixty percent of all German self-employed artists receive financial support from their families. Considering these numbers a relatively small proportion (1/3) of fine-art artists consider turning their hand to alternative employment.
Collectors

The most relevant player in the market, next to the artist, is the collector (Boll, 2009; Schiefer, 1998; U. Klein, 1993). Collectors establish the market: while the artists fulfil the supply side, the collector is on the demand side, introducing money in the cycle (Robertson, 2005). They also have a powerful impact on the success of an artist. When a famous collector buys an artist’s work, or even just expresses interest in it, this can increase the value of an artist. The reputation and brand of the collector will trigger other collectors to buy.

Art collectors may be private individuals, but may also be institutional. Private art collectors represent by far the largest group of art collectors. According to the Capgemini and Merrill Lynch Wealth report it is this group that has an enormous impact on the art market. Among their investments (the “passion investments”) art has emerged as the third most popular category after luxury collectibles and jewellery with an average share of 22% of HNWI passion investment in 2010. Interestingly, among those HNWI who acquire luxury products purely as a financial investment, art was the most likely to be acquired (Capgemini & Merrill Lynch, 2010).

Various researchers have tried to classify collectors into groups (Hirschman & Holbrook, 1982; Moulin, 1987; Robertson, 2005; Thompson, 2008; Boll, 2009). A starting point for classification is always an analysis of their motivation.

Collectors have different motives for collecting art. (1) Some seek the inspiration that art brings. (2) Others are driven by the urge to collect, such as stamp collectors. (3) Another group regards art as an asset that is worth investing in to generate a high return. “Part of the pleasure of collecting lies in risk and competition. Collectors gamble on paintings and artists the way racing
enthusiasts gamble on horses or market enthusiasts on stocks” (Moulin, 1987, p. 82). (4) Still others seek social reputation. Collecting art is recognised as a luxury lifestyle, demonstrating the intellectual ability and sophisticated interests of the collector. Moulin (1987) adds: “Speculation is amusing. Because good taste and good investments go hand in hand, the speculator qualifies as a connoisseur by the profit he earns” (p. 99). Hence, various collectors open museums to manifest their social status, even after death. Belk (2003) argues that “in a materialistic society, the quality and quantity of our possessions are broadly assumed to be an index of our successfulness in life in general. In addition, by competing for rare objects of value, we are able to demonstrate our relative prowess and the effects of superior knowledge, tenacity, monetary resources, cleverness, or luck” (Belk, 2003, p. 87). Besides the leveraged social status, collecting art and opening museums bring tax relief. In particular in the US, tax relief is a key motive for the emergence of various private museums in recent years. This final motivation is supported by Hirschman and Holbrook who propose in the Journal of Marketing that attending arts events fulfils hedonic rather than utilitarian needs. They argue that people’s motivation to come out to an art event may have nothing to do with the art itself (Hirschman & Holbrook, 1982).

To sum up, collectors can be grouped into four segments based on their motivation: first, there are the cultural need or knowledge seekers. Second, there are those that look to meet symbolic needs. Third, there is a group of people who seek the opportunity to meet their peers, i.e. the social needs seeker. Finally, there are those want a respite from daily life, whose emotional needs are thus met by art.

Based on these findings and collector motivations, we classify collectors into five distinctive types, including individual and institutional collector types.
### Table 19: Categories and Description of Collectors

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Art Connoisseur</strong></td>
<td><strong>Demographic:</strong></td>
</tr>
<tr>
<td>(Social Needs Seeker)</td>
<td>- late 20s and over</td>
</tr>
<tr>
<td>(Symbolic Needs Seeker)</td>
<td><strong>Geographic:</strong></td>
</tr>
<tr>
<td></td>
<td>- local</td>
</tr>
<tr>
<td></td>
<td><strong>Economic and social status:</strong></td>
</tr>
<tr>
<td></td>
<td>- highly educated, high income</td>
</tr>
<tr>
<td></td>
<td><strong>Purchase behaviour:</strong></td>
</tr>
<tr>
<td></td>
<td>- irregular attendance at openings</td>
</tr>
<tr>
<td></td>
<td>- little or no purchase record</td>
</tr>
<tr>
<td></td>
<td><strong>Personality and Lifestyle:</strong></td>
</tr>
<tr>
<td></td>
<td>- one-off buyer</td>
</tr>
<tr>
<td></td>
<td>- uncertainty and little experience with the art market</td>
</tr>
<tr>
<td></td>
<td>- enjoys the event more than the art</td>
</tr>
<tr>
<td></td>
<td>- enjoys the reputation that comes with it</td>
</tr>
<tr>
<td></td>
<td>- no trading ambition or impact on prices</td>
</tr>
<tr>
<td></td>
<td>- no exchange with artists, only through gallery</td>
</tr>
<tr>
<td></td>
<td>- no impact on price and market</td>
</tr>
<tr>
<td></td>
<td>- no trading ambition or loan</td>
</tr>
<tr>
<td></td>
<td>- keeps artworks until death</td>
</tr>
<tr>
<td></td>
<td>- after death: transfer to children</td>
</tr>
<tr>
<td></td>
<td><strong>Example:</strong></td>
</tr>
<tr>
<td></td>
<td>can be anyone who has bought an artwork in a gallery</td>
</tr>
<tr>
<td><strong>Art Lover</strong></td>
<td><strong>Demographic:</strong></td>
</tr>
<tr>
<td>(Emotional Needs Seeker)</td>
<td>- late 30s and over</td>
</tr>
<tr>
<td>(Cultural Needs Seeker)</td>
<td><strong>Geographic:</strong></td>
</tr>
<tr>
<td></td>
<td>- regional, countrywide</td>
</tr>
<tr>
<td></td>
<td><strong>Economic and social status:</strong></td>
</tr>
<tr>
<td></td>
<td>- highly educated, high income</td>
</tr>
<tr>
<td><strong>Purchase behaviour:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- irregular – high attendance</td>
</tr>
<tr>
<td></td>
<td>- regular buyer</td>
</tr>
<tr>
<td><strong>Personality and Lifestyle:</strong></td>
<td>- will be introduced later</td>
</tr>
<tr>
<td></td>
<td>- old-school type of collector</td>
</tr>
<tr>
<td></td>
<td>- motive: love of art, inspiration, altruistic, collection</td>
</tr>
<tr>
<td></td>
<td>- exchange with artists, tries to establish a connection</td>
</tr>
<tr>
<td></td>
<td>- impact on price or market</td>
</tr>
<tr>
<td></td>
<td>- loans artworks to museums to educate public (mostly unnamed to public)</td>
</tr>
<tr>
<td></td>
<td>- keeps artworks until death</td>
</tr>
<tr>
<td></td>
<td>- after death: donation to museum or public institution</td>
</tr>
<tr>
<td><strong>Example:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Individual: Cherryl and Frank Cohen, Manchester &amp; Jeff Koons</td>
</tr>
<tr>
<td></td>
<td>Institutional: public art museum</td>
</tr>
</tbody>
</table>
| **Investor** | **Demographic:**  
| - mid 30s and over | **Geographic:**  
| - international | **Economic and social status:**  
| - highly educated, high income | **Purchase behaviour:**  
| - no attendance at openings | - irregular buyer | **Personality and Lifestyle:**  
| - new type of speculator | - motive: art as an investment, return | - dealing with art and loans to museums to increase value | - fluctuation of collection, variation in style, following trends: “Park Avenue Collection” | - before death: sale of various artworks to make money | **Example:**  
| Individual: Steve Cohen, Greenwich | **Institutional: Art Funds**  

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| **Dealer – Collector** | **Demographic:**  
| - mid 30s and over | **Geographic:**  
| - international | **Economic and social status:**  
| - highly educated, high income | **Purchase behaviour:**  
| - no attendance at openings | - irregular buyer | **Personality and Lifestyle:**  
| - mixture of investor and dealer, but professional | - motive: art as an investment and extension of own collection with intent of resale after profit maximisation | - medium interest in artist himself (collector) but development (investor) | - dealing with art and loans to museums to increase value | - heavy impact on price and market: reputation as collector and vast inside knowledge and network of dealers | - works from own gallery, uses its infrastructure | - fluctuation of collection, variation in style | - before death: sale of most artworks to make money | **Example:**  
| Heinz Berggruen, Charles Saatchi |
2.3.5 Art Market Characteristics

A comprehensive presentation of the art market must incorporate an analysis of the specific characteristics of the art market in reference to other markets, particularly to the stock market. This will demonstrate its uniqueness. To start with, it seems that the art market functions differently to other markets. Velthuis (2005, 31ff.) describes how classical economists such as Smith, Jevons and Marshall encountered great difficulties in applying conventional economy theory to art markets. Even now, researchers have difficulties in understanding the specific art market characteristics. Book titles such as “Pricing the Priceless” (Grampp, 1989) or “The $12 Million Stuffed Shark” (Thompson, 2008) demonstrate the challenges researchers encounter. Luhmann (1981) questioned if the art market can be analysed and understood in detail. He asks how prices, for example, can be attached to a piece of art which should, according to its original intention, never be treated like a commodity but only be valued as beautiful or ugly (Luhmann, 1981).

2.3.5.1 Characteristics of the Commodity

Original art objects such as paintings, sculptures and other artefacts have characteristics that differentiate them from all other goods.

Gérard-Varet (1995) notes that artworks are the output of individual creativity. For him every unit is unique, an extreme case of a heterogeneous commodity. For the work of death artists in...
particular, there is only a limited supply since artworks cannot be reproduced. Since copies or reproduction must be marked clearly as such, the uniqueness of every work of art is guaranteed. This is one key difference between artworks and commodities like stocks. While stocks can be easily and perfectly substituted, works of art are unique and even two works on the same theme by the same artist are not substitutes for one another (Gérard-Varet, 1995).

A further distinguishing factor is that artworks form part of the cultural capital of mankind, and thus have public-good characteristics (Frey & Pommerehne, 1988).

2.3.5.2 Classification of the Commodity

Unlike most other products, artworks cannot be assigned to either consumer goods or financial assets (Bernhard, 2005). On the one hand, artworks provide consumption benefits to purchasers through their composition and usage as luxury product. On the other hand, works of art can be a financial asset because each artwork has a price and a market. Thereby they show very similar characteristics to financial assets. In this role artworks can be used as a hedge against inflation, as a source of speculation or as assets (Thorsby, 2004). Grampp (1989) argues: “Their usage as a tool to satisfy one’s needs makes the arts comparable to a property or a piece of land. Art is additionally something totally different compared to a stock, because a stock can’t be used as decoration of a wall to beautify it (p. 207)”. Similarly other researchers describe the art market as a paradox union of aesthetic and economic driving forces (Herchenröder, 1999, p. 9)

Stein (1977) therefore claims that there is no clear definition of whether artworks belong in the category of financial assets or consumer products (p. 1021). Other researchers agree and claim that the definition of art depends on its usage. A collector with no investment targets considers art as consumer/luxury product that generates aesthetic value, while an investor considers it a financial asset.

2.3.5.3 Market Form

The art market takes on the market form of the monopolistic supply competition: many producers and many consumers in a given market where no single business has total control. Consumers perceive that the offered products are similar but not identical. Hence, every supplier is in a monopolistic situation. This monopoly is alleviated through the substitutability of the products. Substitutability exists when artworks resemble each other, for example when artists have the same educational background or work on the same theme. This leads to weak competition among suppliers (Schumann, 1992). However, the originality of each work anticipates that prices are equal and leaves room for price differences (Grampp, 1989).

2.3.5.4 Competition

Competition in the art market varies between the levels and career phases of artists. At the beginning, in the shopping phase, competition is widespread. Here we find more artists than potential buyers, so prices are low (Throsby, 1994). “Although most serious painters undergo significant periods of training to qualify as professional artists, as a group they lack the
credentialing mechanisms of doctors and attorneys, and are thus unable to exert any supply-side power in this market in order to restrict competition or to raise prices” (Throsby, 1994, p. 7).

The secondary market is significantly more concentrated with only a very limited number of artists and buyers. This limited number gives galleries and dealers more market power (Throsby, 1994). Not infrequently, a gallery owner will act as a monopolist by tying up the work of a particular artist (Throsby, 1994). Stocks are different in this context since in general they can be purchased by everyone and are usually held by many individuals.

### 2.3.5.5 Liquidity

According to Sotheby’s (2009) the art market is not very liquid. While transactions in stocks are frequent, artworks do change owner, but – because of the subjective value of artworks, and the swings in value over time – with considerably lower frequency. Hence, people are reluctant to buy and sell artworks so frequently and trade them as they might with stocks. A further contributor to the illiquidity of the market is the time lag between the decision to sell an artwork and the actual execution. It can sometimes take several months for an artwork to be sold (Frey & Pommerehne, 1988).

### 2.3.5.6 Supply and Demand

In general terms the art market follows the regular rules of demand and supply theory. However, it has its own characteristics.

According to Marion (1983) there are only a limited number of artworks for each artist. The supply on the market – after the artist’s death – often does not follow regular rules. Mostly, it does not depend on the sheer quantity of existing artworks on the market or on demand, but on the very personal motivation of the supplier of artworks (Marion, 1983). Athineos (1996) argues that an artwork can be offered on the market for a variety of reasons including divorce, death or debt (p. 203). Baumol (1986) regards the random nature of this supply as a key reason for market failure.

Contrary to supply, the demand for art has increased in the past centuries and will continue its rise, since new buyer groups appear on the market (see above). It is these new buyers that represent the demand for art since these people try to enter society and elevate their social status through the purchase of expensive artworks (Athineos, 1996).

When it comes to the point where supply meets demand, the pricing of artworks shows a fundamental unique characteristic. In the secondary market (auctions and trading) demand and supply define the equilibrium price. However, with fresh and young Contemporary Art without a vast auction track record there are no reference points to value an artwork. Gérard-Varet (1995) states that there are more artists willing to sell the artwork than potential acquirers. Baumol argues (1986) that, since the price cannot be determined by using marginal costs as reference points, there is no process for reaching the equilibrium price. Here, we find a major difference to the stock market. According to Baumol: “In the case of a stock we know, at least in principle,
what its true equilibrium price should be – it is the stock’s pro rata share of the discounted present value of the company’s expected stream of future earnings” (p. 10). However, with fresh and unknown Contemporary artworks there is no one who can claim to have found the equilibrium price.

To sum up: trading art shows similarities to trading stocks. Often it is the perception of reality that really influences the price. However, over time, the stock market can make use of objective criteria whereas in the art market subjective criteria are applied until the judgement of history or auction results come into play. In this interval (between the short- and long-term views) dealers manipulate supply to demand high prices (Zorloni, 2005).

2.3.5.7 Market Efficiency

The difficulties in determining the price of art demonstrate that the art market is far from perfect or from fulfilling the efficient market hypothesis (EMH). The hypothesis claims that if information is the cornerstone of price, then financial markets are efficient, since prices on assets in the market reflect all existing information (Dictionary.com, 2009). Therefore, according to theory, the market cannot be outperformed by using information already known to the market, other than through luck (Malkiel, 1996).

Louargand (1991) argues that the art market is not efficient. Comparing it to an almost efficient market, such as the financial market, they claim that prices must reflect all existing information at any time (Louargand, 1991). As Czotscher (2006) argues, transparency in the art market is fragmented. For example there is no central point where all market data comes together and is visible to public. Interested buyers must conduct intense research to find the object they like and pay prices that are not secured (Czotscher, 2006; Wilke, 1999). Wilke (1999) argues that not even market experts have a clear view on the market structure. Comparing this to the stock market, Baumol (1986) claims that, in the case of stocks, the price for exchange is public information. However, the price on which art is exchanged is frequently known only to those who are involved in the transaction. Publicly available price data is limited to public auction sales. Works that are bought-in are also excluded. In addition, any sales through a dealer are not included in the data set. This asks for inside knowledge and information to successfully engage in the market. Since not even market insiders always possess this knowledge, the market does not fulfil the criteria to be efficient.

2.3.5.8 Market Distortions

Furthermore, the market is not free from distortion; there is no legislation to prohibit it, and widespread information asymmetry even fosters it. Insider trading, for example, is considered as normal and a key source of profit.

Market distortions can be frequently seen in auctions, where collectors conspire with dealers and sometimes auctioneers to push the price of a particular artist (Herchenröder, 2003). The target is always to push the price as high as possible to generate some media attention towards the artist
and establish a new price level. In the next auction more works appear with a heightened starting price level.

Another commonly practised market distortion is found in social relationships. Krepler (2007) identifies that prices vary depending on the client. For example, a famous collector and an unknown collector will each pay a very different price for the same work. These practices and others foster the impression that the art market is not a free market but bound to any number of agreed, unspoken, but widespread practices (Krepler, 2007).

The following table highlights some key characteristics of the art market in comparison with the financial market.

**Table 20: Characteristics of the Art Market by Comparison with the Financial Market**

<table>
<thead>
<tr>
<th>Category</th>
<th>Art market</th>
<th>Financial Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristic of commodity</td>
<td>Unique, not substitutable, cultural and public value</td>
<td>Perfect substitutability, homogeneous</td>
</tr>
<tr>
<td>Classification</td>
<td>Mix of capital asset and consumer good</td>
<td>Capital asset</td>
</tr>
<tr>
<td>Market Form</td>
<td>Monopolistic competition</td>
<td>Perfect competition</td>
</tr>
<tr>
<td>Competition</td>
<td>Heterogeneous and imperfect</td>
<td>Heterogeneous and perfect</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Illiquid</td>
<td>Highly liquid</td>
</tr>
<tr>
<td>Supply and Demand</td>
<td>Polypolistic supply structure (\Rightarrow) Has no reference points to find (true) equilibrium price</td>
<td>Polypolistic supply structure (\Rightarrow) Has reference points to find (true) equilibrium price</td>
</tr>
<tr>
<td>Market efficiency</td>
<td>Does not fulfill efficiency theory (\Rightarrow) not transparent</td>
<td>Fulfils efficiency theory (\Rightarrow) transparent</td>
</tr>
<tr>
<td>Market distortions</td>
<td>No law to prohibit them</td>
<td>Clear law to prevent market distortions</td>
</tr>
</tbody>
</table>
3 Quantitative Analysis

The previous two chapters served as an Introduction to the problem at hand. The research gap and research questions were identified, as well as the research design. Furthermore, relevant theories were presented that dealt with success factor research, the business model concept and the art market. This serves as a foundation for the chapters to come.

This chapter, the Analysis, deals with the examination of the current business models of art galleries in a sample group (Identification/Description, Explanation). It maps the status quo of art galleries by describing relevant industry statistics, identifying existing business models and finally discussing success factors. The following research objectives and questions correspond to this chapter:

- Identify and describe the status quo: Analysis
  - What are the most relevant statistics to describe the business model of art galleries?
  - What are the predominant business models for art galleries?

- Explain and discuss existing statistics to identify success factors: Analysis
  - What are the existing and potential success factors?

We will base our examination on a triangulation of research methods: summary statistics, literature review and a regression model. With data on the commercial art market in such generally limited supply, this research approach is the one best suited to our needs. In order to better understand the market we first collect data on summary statistics of art galleries, such as revenue, profit, number of employees etc. We then use literature to develop hypotheses that form the basis of our regression model. The regression model allows a detailed analysis of each dimension of the business model. It observes the differences in management dimensions between successful and less successful art galleries. This leads to the identification of those factors that have the most or the least impact on performance, as well as existing business models.

Figure 21: Research Methods for the Analysis

This chapter is laid out as follows: at first the applied research methodology is conceptualised and operationalised. Then descriptive statistics are introduced, followed by the presentation of
the results of the regression analysis. Thereafter, these results are mutually discussed and theoretical, as well as an introduction to managerial implications are given. Finally, limitations are discussed.

3.1 Conceptualisation (Model and Hypothesis)

3.1.1 A Model to Measure the Impact of the Business Model Dimensions on Economic Performance

According to our research question it is the task of this part to identify those dimensions in the business model concept that have the most/least impact on gallery performance in order to identify success factors. Measuring these dimensions means transforming their “good” or “bad” characteristics into quantifiable measures. We therefore relied on Bieger’s business model as a unique practice evaluation tool. This model is based on the definition of the adapted Bieger et al. business model (in reference to Bieger and Lottenbach (2001)):

“A business model is the description of the way in which a company, a corporate system or an industry creates value on the market. This requires answers to the following questions:

Value proposition: Which benefits do we transfer / What job has to be done?
Customer: Which customers do we target?
Communication concept: How is this benefit communicatively anchored in the relevant market?
Revenue concept: How are revenues generated?
Growth concept: Which growth concept is pursued?
Competence configuration: Which core competencies are necessary?
Organisational form: What is the range of one’s own company?
Cooperation concept: Which cooperation partners are selected?
Coordination concept: Which coordination model is used?”

As we identified in chapter 2.2 and as literature suggests, the adapted Bieger business model presents a unique and practical tool to analyse current business models in the art industry (Boehnke, 2007; Linder & Cantrell, 2000; Morris et al., 2005; Osterwalder et al., 2005; Shafer et al., 2005; Timmers, 1998). Our model for conducting the quantitative analysis consists of three key characteristics:

First, our model is based on one underlying hypothesis. We are testing the hypothesis that all business model concepts taken together have a positive impact on the economic performance of art galleries.

Second, the hypothesised positive relationship between economic performance and the business model concept is described by Bieger et al. business model dimensions. We expect these
characteristics either to enhance or to weaken the hypothesised relationship. We examine this dependence by analysing the impact of each factor on economic performance.

Third, we need to control for a gallery’s basic characteristics such as size or location. Otherwise our comparisons of, say, large and small galleries may be biased by the effect of size. This is why our regression specification must include a comprehensive set of control variables. These control variables are collected in the first section of the questionnaire.

Interestingly, other researchers have followed a similar approach in evaluating management practices (Bloom & Van Reenen, 2007, 2010). Instead of using the business model concept they applied an evaluation tool designed by an international consultancy firm. Their questionnaire can be broadly classified into four areas. The first area, operations, focuses on how process improvements are introduced. The second area, monitoring, describes how well companies monitor what goes on inside their firms. The third area, targets, evaluates companies on their ability to set the right targets and track outcomes. The final area, incentives, describes how companies promote and reward their employees.
When comparing this approach to ours, we find various similarities. While operations, targets and incentives are coherent with our “organisation concept”, “competence configuration” and “coordination concept”, monitoring is not covered by our model. We will come back to this issue later. The key advantage of our model is, however, that it enables the examination of the market and analysis of configuration components of firms competing in the art market. We believe that our evaluation tool covers more detail and allows full-scale analysis of the company and its context. Boehnke (2007) emphasises that its key advantage is to serve as a tool to analyse a company. It helps to identify critical success factors and investigate how firms can operate successfully in the market. Furthermore, the model has frequently been put to the test in the real world. Consequently, we are convinced that the model’s findings are clearly practical. This will help art gallery managers to derive conclusions from it. Finally, the application of the business model concept not only helps art gallery managers but also contributes to the refinement of the concept and adds to its value as a tool for analysis. Applying the business model concept, however, must be done with an awareness of the boundaries of the concept (no substitute for strategy; contextual settings not included; static; and flaws in application).

### 3.1.2 Presentation of Each Hypothesis

Our underlying hypothesis is that elaborated business model concepts have a positive impact on the performance of art galleries. As we identified, all researchers agree that an elaborated business model concept leverages the success of a company. Among various authors Kagermann and Österle (2006), Bieger et al. (2002) and Johnson, Christensen and Kagermann (2008) argue that companies that excel in the dimensions of their business model are quick to adapt to a dynamic environment and are more successful than their competitors. Therefore, we expect that companies that excel in each dimension (concept) form an elaborated business model which impacts positively the performance of their gallery. Hence,

**H1:** An elaborated business model is positively related to economic performance.

As previously mentioned there are several factors that form the components of a business model. These may weaken or strengthen the relationship between the business model and economic performance. We examine nine concepts that have been identified as core components of the business model idea and hence have a strong theoretical and/or managerial relevance.

#### 3.1.2.1 Value Proposition

Art galleries must enrich their business and develop it into an integrated value chain that offers solutions to its clients. Johnson, Christensen, Kagermann (2008) define a successful company as one that has found a way to help customers to get a job done. Kotler & Armstrong (2008) identify five product levels in regard to a customer’s product perception. These are the core benefit, the basic product, the expected product, the augmented product and the potential product. Günter & Hausmann (2008) apply this idea to the museum market and adapt it slightly. They argue that museums, for example, define several services as core products, such as the organisation of exhibitions. Value added services, for example the cafeteria or the museum shop,
add to the perceived value by clients. Added services help the museum to distinguish themselves from competitors. Klein (2005) highlights that the value perceived by a visitor to an art institution can also be non-tangible. He identifies three value categories. First: the core value of an art institution is the presentation of art as inspiration or refreshment. Second: the social value of an art institution lies in the fact that museums or galleries are often a place where people meet and come together to talk. Finally, art institutions offer a symbolic value. Visiting an art gallery can signal both an interest in art and one’s sophisticated nature to the outside world. What all these theories have in common is the central idea that there is more to an art gallery than simply selling an artwork.

An art gallerist must therefore realise that the value proposition of the gallery lies not only in its core benefit (selling art) but that there are several layers around it. According to Günter & Hausmann (2008) these layers can be leveraged through value - innovation, variation, differentiation or elimination. Hence,

H2: An extended value proposition is positively related to economic performance

3.1.2.2 Customer Concept

When targeting customers, managers of art galleries must choose from a wide range of contacts. According to Hausmann (2009) market segmentation is highly important: “In the art business this can be interpreted as whether a gallery, a theatre or a cabaret follows an undifferentiated approach when targeting clients and visitors, or if it approaches clients with tailored offers (p. 40).” Like Tomczak (2007), she identifies various criteria in separating the market into customer groups. Among them are the following dimensions: (1) demographic and geographic criteria, (2) personality and lifestyle, (3) customer benefit and purchase behaviour, (4) social and economic status (Günter & Hausmann, 2009; Kuss, Tomczak, & Reinecke, 2007; Meffert, Burmann, & Kirchgeorg, 2008).

In creating these customer groups, the key tasks of galleries are to identify the most profitable customers and to decide on the customers which are worth the investment in time and money. According to Reinartz et al. (2004) companies often ignore the long-term profitability of customers that are initially expensive to acquire. Furthermore, they argue that accessing profitable customers does not always involve high acquisition costs because high-potential customers can be found across all income classes (Reinartz, Krafft, & Hoyer, 2004). This makes it difficult to identify high-potential customers.

Professionally targeting customers, therefore, describes the ability to identify and acquire those customers that generate the highest gross margin (Chen & Popovich, 2003; Reinartz et al., 2004; Rigby & Ledingham, 2004; Sabri, 2003). An advantage of this activity is that managers will no longer invest time and money in unprofitable customers. Moreover, they will invest more than other galleries in the most profitable customers. This will raise sales, hence our third hypothesis:

H3: Targeting the right customers is positively related to economic performance
3.1.2.3 Communication Concept

In a customer-centric market like the art market, new customers are hard to find and can also be costly to acquire. Hence, increasing the share of existing customers plays a central role in the economic performance of such companies (Verhoef, 2003). In the first instance (after having defined their communication goals), galleries must attract sufficient attention to their products. Traditional methods can be used such as postal invitation cards, email newsletters or personal contacts. New technological opportunities help gallerists to reach new clients, for example web 2.0 applications, mobile marketing or viral marketing. Bieger and Belz (2000) also highlight the relevance of communities as a multiplier or trigger of communication.

In the second instance, once new clients are attracted to the offer, the gallery managers need to ensure that customer loyalty among their clients remains high throughout. They may achieve this by implementing retention programmes, such as invitations to dinners, mutual art fair visits, artist studio visits or similar activities.

Hausmann (2009) and other authors highlight the fact that an artwork’s value proposition is not as apparent as it is with other products. Therefore, it is the task of the gallery’s communication concept to convey the value to the public, for example by referring to good reviews of the show, publicising the number of visitors or claiming high demand for the artist: “To communicate a service, you must make it tangible” (Hausmann, 2009, p. 72).

Advantages of this are that art gallery managers will increase their customer share by up- and cross-selling. Furthermore, retention programmes will increase sales through stronger brand perception by customers as they become aware of their special treatment. Therefore,

H4: Anchoring the benefit in the relevant market via the right channels is positively correlated to economic performance.

3.1.2.4 Revenue Concept

According to Johnson, Christensen & Kagermann (2008) the revenue concept is the blueprint showing how the company creates value for itself by offering its value proposition. Companies must optimise their revenue by extension into or integration of secondary businesses.

Art galleries have long neglected the power of enhancing their revenue concept. A starting point for optimising revenue can be identified within secondary businesses. Like tourist destinations, art galleries could rent out their gallery space for private dinner invitations or organise lectures. Furthermore, Meffert et al. (2008) introduce the idea of price variation and price bundling. Transferred to the art market Hausmann (2009) describes price variation as temporarily reducing or increasing the price of an artwork, for example based on the age of the buyer. Price bundling describes, for example, the idea of developing a scheme that guarantees one-off buyers a reduction of several percent on their next purchase in the gallery. Clearly, ideas for enhancing the revenue concept are extensive and only limited by the gallerist’s imagination.
Galleries that develop a more attractive and diverse revenue concept will both gain new customers and retain old customers. Hence,

H5: An elaborated and diversified revenue concept is positively correlated to economic performance.

3.1.2.5 Growth Concept

Firms operating in any business must constantly ask themselves how they want to secure and foster growth (Shapiro & Varian, 2000). Growth can be achieved by various means, including extension of share of wallet, entry into new markets, franchising or others. In order to kick-start growth, companies need to set clear goals and strategies (Meffert et al., 2008). For the art industry in particular, authors highlight the importance of developing feasible targets as a prerequisite for growth (A. Klein, 2005; Schneidewind, 2006). In order to choose the right growth path art galleries need to state their corporate mission and identity, including their financial objectives. When these are clearly identified, gallerists can develop appropriate business goals. Hausmann (2009) separates these business goals into two categories: first, there are economic goals, such as leveraging the revenue or increasing the margin. Second, there can be psychological goals, such as increasing brand awareness, changing customer perception, augmenting customer satisfaction, etc. Growth, however, can be achieved only when all necessary resources are available and efficiently used.

Galleries that develop a firm growth model will improve their economic situation through increased income and improve their perception among customers. Hence,

H6: A clearly laid out growth concept is positively correlated to economic performance.

3.1.2.6 Competence Configuration

The perfect fit between core competencies and products offered represents a unique advantage over competitors and is fundamental to the success of any firm (Osterloh & Frost, 2006). Core competencies can vary depending on the arrangement of the business model but will be found in a company’s human resources, technology, products, facilities, equipment, channels and brand (Johnson, Christensen, & Kagermann, 2008). Here they create real value for the company and present unique competitive advantages.

In order to leverage their core competencies, art gallery managers first need to identify them. Core competencies in an art gallery can be found for example in the management, human resources, social capabilities or selection of artists. Once identified they can use them as success factors. Hence,

H7: The perfect fit between competencies and products offered is positively correlated to economic performance.
3.1.2.7 Organisational Form

The organisation of core competencies can employ a wide range of organisational designs – from flexible project organisation (tent) to a pyramid form (hierarchic organisational form). In order to find the right organisational form a firm needs to be aware of its boundaries, its interfaces with partners, etc. The advantages of a working organisational form are the following (Bruhn, 2007; Steinmann & Schreyögg, 2005):

- Structuring of the processes, improved efficiency, perfect use of employees’ know-how
- Perfect use of core competencies
- Smooth communication and information transfer among various departments/positions
- Boost of motivation and teamwork
- “Big picture view” implemented with every employee

Art gallery managers who develop an organisational form that complements both their core competencies and their value proposition will work more effectively and efficiently and improve their economic performance. Therefore,

H8: A clear determination of one’s own position in the value chain is positively correlated to economics performance.

3.1.2.8 Cooperation Concept

Cooperation plays a substantial part in every business model. Cooperation can take on various forms: literature on cooperation distinguishes between horizontal cooperation (partnership among competitors on same level in value chain), vertical cooperation (forward/backward integration of value chain) and lateral cooperation (partnership among companies from different areas or businesses) (Föhl & Huber, 2004).

Although experts warn against engaging too early in cooperation and claim that a lot of cooperation attempts fail, Hausmann (2009) identifies the following advantages that cooperation in the art market can bring:

- Realisation of projects through pooling resources
- Synergies and reduction of overlapping operations
- Enlargement of value proposition and improvement of quality
- Acquisition of new clients
- Brand and image transfer through cooperation between different industries (lateral)
- Expertise and exchange of know-how

Hence, we could argue that cooperation efforts can have a positive impact on the gallery’s performance. Therefore,
H9: Selection of the right business partners is positively correlated to economic performance.

### 3.1.2.9 Coordination Concept

Once cooperation and the other concepts are established, the gallery has to start functioning within a network of partners. The priority is then to coordinate all the partners, with particular care over the potential transaction costs involved in operating the network.

In relation to their partners, especially to their artists, galleries may refer to explicit or implicit contracts. Explicit contracts can help to establish a firm relationship that both parties can rely on. In most cases, implicit contracts define the relationship between artist and gallery. These non-binding agreements are based on trust which is a liability in any coordination attempt. Galleries that employ binding contracts will decrease uncertainty and leverage their income. Therefore,

H10: Designing the right coordination concept is positively related to economic performance.

### 3.2 Operationalisation (Methodology)

#### 3.2.1 Sample Selection

In order to test our hypotheses we decided to collect data from art galleries in Switzerland, Germany and Austria via an online survey. International art galleries may differ widely in the central features of their businesses and there is no standardised theory that can be applied to distinguish one from another. As this heterogeneity could bias our results, and to try to maintain some form of consistency between gallery types, we limited our sample group to German-speaking art galleries.

In total we approached 1,102 art galleries in Germany, Austria and the German-speaking part of Switzerland (including Liechtenstein). A sample of this size is unique, since there has been no combined data collection on art galleries in Germany, Switzerland and Austria thus far.

Although governments have recently attempted to generate data on the art market there is very little information available, particularly for art galleries. The most recent study by the Federal Ministry of Economics and Technology claims in its foreword that the existing data on the market should be judged with caution (p. 82): “Hence, it is difficult to analyse this market based on existing statistics. Additionally, the art market is merged together with dissimilar categories, such as the selling of gifts, deer antlers, postage stamps, etc.” (BMWI, 2009a). In addition, practitioners (for example at the first hearing of art market experts, organised by the German Federal Ministry of Economics and Technology) and researchers on the art market and creative industry claim that no suitable data exists for art galleries (BMWI, 2009a, 2009b; ICG Culturplan, 2010; ICG Culturplan & STADTart Planungs-Beratungsbüro, 2006; Weckerle, 2008).

A prime example for illustrating the lack of useful numbers and statistics concerns the actual number of art galleries. For Germany in particular, we find contradictory numbers and statistics:
while the BMWI (2009a) claims that in 2008 there were 1,900 businesses involved in trading art – galleries, auction houses and dealers – (p. 84), other data cites 4,110 businesses in the German art market, with 110 auction houses and 4,000 dealers (Mc Andrew, 2010). For Switzerland we find more concise statistics: Weckerle (2010) states that in 2008 there were 580 businesses dealing in art. However, the data does not explicitly define the term “art dealers”. This could include auction houses but also describe individuals who do not possess a conventional gallery business with regular exhibitions, gallery rooms and so on. For Austria we find similarly inconsistent numbers.

As a consequence of the scarce and imprecise data available and to prevent biased results we decided to work only with data drawn exclusively from art galleries. At some points, where it might be useful, we include findings from other statistics but mark them accordingly.

In order to address galleries and increase the response rate we decided to approach gallery associations first. We could use their network and reputation to introduce our questionnaire and thereby profit from higher response rates. In most cases gallery associations agreed to introduce our survey among their member galleries. Where there were no associations, or the local association didn’t want to support us, we approached galleries individually. However, not all galleries in German-speaking Europe were included in the sample, as there may have been no regional association and we could not find an alternative way in. One example is Mecklenburg Vorpommern, where no gallery was approached.

The following table provides an overview of the art gallery associations, the number of membership galleries, and completed data sets (per country to preserve anonymity):
Table 21: Overview of Sample Selection in Germany, Austria and Switzerland

<table>
<thead>
<tr>
<th>No.</th>
<th>Country</th>
<th>Region or City</th>
<th>Gallery Association</th>
<th>Galleries Approached</th>
<th>Completed Data Sets; Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Germany</td>
<td>Berlin</td>
<td>Landesverband Berliner Galerien + Berlin</td>
<td>473</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>Baden-Württemberg</td>
<td>Landesverband Galerien in Baden-Württemberg</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>Schleswig Holstein</td>
<td>Galerienverband Schleswig Holstein</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>Hessen + Rheinland Pflaz</td>
<td>Landesverband der Galerien in Hessen + Rheinland Pflaz</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>Frankfurt + Rhein Main</td>
<td>Galerien in Frankfurt und Rhein-Main</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>Düsseldorf</td>
<td>Parallel, Düsseldorf</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>Cologne</td>
<td>Köln Galerien</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>Hamburg</td>
<td>Galerien in Hamburg</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>Munich</td>
<td>Galerien München</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>Stuttgart</td>
<td>Initiative Stuttgart Galerien</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td>Leipzig</td>
<td></td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td>Halle</td>
<td></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Germany</td>
<td></td>
<td></td>
<td>944</td>
<td>317; 33.6%</td>
</tr>
<tr>
<td>13</td>
<td>Austria</td>
<td>Austria (entirety)</td>
<td>Die Galerien, Bundesverband</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Austria</td>
<td></td>
<td></td>
<td>64</td>
<td>25; 39.1%</td>
</tr>
<tr>
<td>14</td>
<td>Switzerland</td>
<td>Zürich</td>
<td>Die Zürcher Galerien</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td></td>
<td>Basel</td>
<td></td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td></td>
<td>Berne</td>
<td></td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td></td>
<td>Lucerne</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td></td>
<td>St Gallen</td>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Liechtenstein</td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Switzerland</td>
<td></td>
<td></td>
<td>94</td>
<td>36; 38.3%</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td></td>
<td>1102</td>
<td>378; 34.3%</td>
</tr>
</tbody>
</table>

3.2.2 Data Collection

Since a large majority of art galleries are privately held and are not required to publish their financial performance, the availability of data is very limited. The most recent survey on art galleries in Germany dates back to 1999 when the Bundesverband Deutscher Galerien conducted
a survey among its members. Data is also scarce because art gallery owners consider their data highly sensitive and most business owners are unwilling to share this information voluntarily.

We therefore decided to conduct an anonymous online survey. The survey took place between November 2009 and January 2010. Since the data was collected in 2009, we asked each informant to provide answers for 2008. Key informants were owners of the art galleries. Our sample included over 1,100 art galleries. In most cases we approached them via gallery associations in Germany, Switzerland and Austria, who introduced the questionnaire and motivated their members to participate. As an incentive to participate, a prize draw for a new Apple I-Phone 3GS was held.

A pilot of the questionnaire was run with a small sample of galleries to test the understanding of the questions and assess the validity of the scales. The content of our online questionnaire was divided into two parts (An overview on the questionnaire items can be found in the 6.2.2.) The first part addressed structural data. In order to be able to classify art galleries into homogenous groups, data was collected on their size, location, number of employees, and focus within the art market, i.e. Contemporary Art, Fine Art, etc. It is reasonable to assume that existing art galleries vary considerably along these dimensions. Therefore, any serious empirical analysis of this market must take these differences into account. The first part of the questionnaire also contained questions about profitability and revenue. To respect confidentiality and to increase the proportion of gallery owners answering these questions, we asked only for an indication of 2008 revenue by range, using a multiple choice format.

The second part of the questionnaire collected data on existing management practices and business models. The questions covering this dimension were closely aligned with Bieger’s business model. A number of questions were asked for each dimension in Bieger’s model. As outlined below, this detailed information-gathering will mitigate measurement error in each dimension and will make our point estimates more accurate. To the best of our knowledge, no other study achieves a similar goal.

We invited all respondents to include their email addresses in a separate box on the last page of the survey where results of the survey should be sent.

Finally, to validate results generated in the questionnaire, we collected archival data. This included gathering data from the art world’s financial database, artprice.com, as well as from internet websites and other databases for missing data and consistency checks.

Overall our response rate of completed surveys is approx. 35%. 50% of respondents left their email address. We consider this rate to be highly successful and proof of gallerists’ interest in our results.

An overview of the steps taken during the quantitative study is provided below:

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6 It is well known in econometrics literature that measurement error of the classical form introduces downward bias in point estimates obtained by ordinary least square regressions.
Table 22: Data Collection Process of the Quantitative Study

<table>
<thead>
<tr>
<th>Steps of Research Process</th>
<th>Objectives</th>
<th>Procedure</th>
</tr>
</thead>
</table>
| 1. Pre-test and revision of questions | - Ensure clarity of the questions  
- Obtain items with high validity | - 5 gallery owners participated in the pilot  
- Interview after the test with each owner to discuss perception and receive feedback |
| 2. Sample Selection | - Approaching gallery associations to win their cooperation and support | - Via email, personal visits, introduction through gallery owners |
| 3. Email Round 1 | - First email, containing introduction and link to online survey, sent out by gallery associations | |
| 4. Email Round 2 (two weeks later) | - Reminder to participate sent out by gallery associations | |
| 5. Analyse results | - Test hypothesis | - Descriptive statistics  
- Multivariate regression  
- Correlation analysis |

Since our main data source was gallery managers, one primary concern could not be entirely resolved: single-informant studies are subject to cognitive biases, as interviewees may not have a totally accurate view. A possible solution would be to find a second respondent in each gallery. Since most galleries had fewer than four employees, we did not ask a second source within the gallery in order not to undermine the first respondent’s reliability. Furthermore, to strengthen the insight and validity of our analysis, we intended to collect perceptual as well as objective performance measures for the set of galleries to be analysed. We believed this to be of particular importance for empirical survey research as, on the one hand, reliance on objective performance measures may be a limitation (Jaworski & Kohli, 1996); on the other hand, however, consulting informants on their opinions towards competitors exposes results to cognitive biases (Huber & Power, 1987). Hence, our goal was to converge objective and perceptual performance measures to make our results more powerful and credible. In fact, as we found out in our pilot, most owners of art galleries hesitated to compare themselves to their competitors. Too little is known of competitors’ profits and work. Hence, we decided to leave the perceptual performance measure out of the final questionnaire and assess performance only in terms of profits in 2008.

3.2.3 Regression Construction

The regression analysis forms the substantial part of the empirical part of this paper. Above we presented the hypothesis for each of Bieger’s dimensions. The regression allows us now to investigate which dimensions of the Bieger business model are particularly important for art galleries’ economic performance. In other words, we estimate econometrically how much each of these activities contributes to a gallery’s economic performance.
There are multiple possible approaches to conduct a regression:

(1) We could either work with the data at hand by estimating a multinomial choice model. Multinomial choice models are frequently used when the dependent variable (here profit) is discrete and consists of more than two categories.

(2) Another option is to transform the information on profits collected in categorical variables into a continuous outcome. This allows us to estimate a linear model by ordinary least squares (OLS). OLS is a very efficient method of estimating unknown parameters in a linear regression with homoskedastic errors. It minimises the sum of squared distances between those responses that are predicted by the linear approximation and those that are generated from the data sheet.

For ease of interpretation of the point estimates we chose the latter. This is fairly common in applied microeconomics literature and has generally little effect on the qualitative interpretation of the results. Several researchers have applied a similar approach (Bloom & Van Reenen, 2007; Fryer, Kahn, Levitt, & Spenkuch, 2008).

In order to successfully apply the OLS method we need to have a closer look at our data at hand, in particular the dependent and independent variables.

For our dependent variable (profit) we have data available only on profit described as percentage of revenue. Furthermore, for both profit and revenue, we are limited to ranges selected by respondents, as we needed to lower psychological barriers to giving up this highly confidential piece of information. In order to turn this data into a continuous variable we use the midpoints of the ranges for revenue and for profit as a percentage of revenue. We then multiply the two to get our actual “profits”.

We are aware that this procedure will introduce measurement error in the dependent variable. If actual profits are uniformly distributed across each of the ranges in the survey, then it is easy to show that measurement error will be uncorrelated (though not mean independent) with true profits. Of course this will not be true in the most exact sense, but roughly so. Thus econometric theory tells us that the OLS point estimates will be less prices, that is higher standard errors, but still unbiased and asymptotically consistent.

More specifically we will estimate a linear model of the following form by ordinary least squares:

\[ \text{performance}_i = \alpha + \text{controls}_i'\gamma + \text{concept}_i'\beta + \varepsilon_i, \]

where \( \text{performance}_i \) denotes the outcome variable of interest, i.e. profit, \( \text{controls}_i \) is a column vector containing covariates commonly believed to influence profit and to be correlated with \( \text{concept}_i \), which itself is a column vector containing measures to which extent gallery \( i \) engages in a given concept of the Bieger business model. \( \gamma \) and \( \beta \) denote the coefficients on these two vectors respectively, and \( \varepsilon_i \) is a standard random error term assumed to be uncorrelated either with \( \text{controls}_i \), or \( \text{concept}_i \).
The coefficients on which our focus is set is $\beta$. A higher $\beta$ will indicate by how much performance increases when a gallery chooses to engage more in the concept of the Bieger model holding all other factors constant. Suppose performance is measured in Euro, then $\beta$ indicates by how many Euro economic performance increases if concept increases by one unit.

However, as we anticipate that galleries which excel in one dimension will typically do well in other dimensions too, it is especially important to consider them simultaneously. Regression analysis does exactly that. It lets us estimate the independent contribution of engaging in an activity.

In the same spirit we need to control for a gallery’s basic characteristics such as its size and location. Otherwise we might bias our results by comparing, say, large and small galleries, but neglecting the size effect. This is why our regression specification must include a comprehensive set of control variables. These control variables are collected in the first section of the questionnaire and form the basis for our descriptive analysis part.

Initially, we anticipated that gallery owners would be more willing to provide us with information on revenues rather than profits. In our pilot and in talks with gallery owners it turned out that gallery managers were willing to provide us with their profit, but only as a percentage of revenue. Ideally one would like to have a pure measure of economic success. Unfortunately, none is readily available. Despite the fact that we are forced to use a percentage of revenue as a proxy for economic performance, our analysis will still be valid because measurement error of the classical form in the dependent variable is known not to have an effect on regression point estimates besides increasing the standard error. Therefore, any regression coefficients will still be consistent and unbiased. The only downside is that our confidence intervals will widen. Therefore, there will be more uncertainty in our results. Similarly one would like to have a pure measure of the extent to which a gallery engages in each concept within the Bieger business model. Again, no such measures are readily available. A more direct approach is the following:

Each concept of the Bieger business model is covered by multiple questions in the questionnaire. The answers to these questions are then combined to create an index for each dimension. In forming such an index the econometric problem of measurement error arises, that it is unlikely that this index would be exactly equal to the pure measure – if one were available. In contrast to measurement error in the dependent variable, measurement error of any of the independent variables, even if it is just white noise, poses a serious problem for regression analysis. More specifically, it introduces downward bias in the coefficient of interest - the well known attenuation bias (Wooldridge, 2009). To mitigate this problem we need to form the index in such a way as to minimise the measurement error. Point estimates are guaranteed to be close to their true values only if the error is sufficiently small. An intuitively appealing way to achieve this goal is principal component analysis. For a given concept of the Bieger business model, principal component analysis treats each question as a separate dimension in a multidimensional vector space – in our case $\mathbb{R}^n$, where $n$ denotes the number of questions covering this sub-part. The
axes of this vector space are rotated to maximise the fraction of the total variance of all points along the first dimension of the vector space. The second dimension then covers only variance orthogonal to the first one, and the third variance orthogonal to the first two, etc. A reader familiar with statistics will immediately recognise the close similarity to factor analysis. Our index will then consist of the score along the first dimension. Mathematically, rotating the axis gives us a weighting vector of dimension $n$, and the score is the vector product of this weighting vector and our original vector consisting of a gallery owner’s answer to the questions in our questionnaire. Intuitively we can think of the first principal component as the underlying part that is common to all questions covering the business model. Exactly this intuition makes our index constructed this way very appealing.

Note, however, that only under fairly restrictive assumptions will our index be free of measurement error. The multivariate regression results should therefore be regarded as likely lower bounds of the true effects.

### 3.2.4 Data Description

Before we start with the actual and detailed presentation of the data we provide an overview of the data at hand. It gives a clear and well-rounded picture of art galleries operating in Germany, Austria and Switzerland. Looking at the average scores the typical gallery can be described as follows: it was founded in 1998, focuses only on Contemporary Art, is located in a main city with no subsidiary, measures approx. 160m² (including office, without warehouse), employs one full-time employee and one freelancer/intern, participated in 2008 in two art fairs and will do likewise in the future, and holds seven exhibitions a year. It considers the rent for its gallery to be its highest cost, followed by the fee for participating at art fairs and salaries. The most frequent visitors to its gallery are the “Vernissage crowd”, i.e. people that are highly interested in the event. Ranked second are art enthusiasts, i.e. those who frequently visit museums but have no intention of buying. Artists are ranked third. Turning to buyers, these are mostly from the group of art connoisseurs, i.e. the one-off buyer, and art lovers, i.e. those who buy rather frequently. Corporates rank third. Galleries’ main competitors are other galleries and artists, followed by dealers. A typical gallery’s revenue in 2008 is approx. €471,000, 15% of which was generated at art fairs. Its profit is approximately 4.6% of the revenue, or €21,660 in real terms.

At this point it would be useful to compare our data with previous results or similar studies in order to validate our results. However, as we pointed out above there is very little data available. Official statistics do not separate out art galleries, combining them with other industries. Only two studies present relevant results that can be used as a form of validation for our results: one by Arts Economics, and one by the BVDG (Bundesverband Deutscher Galerien).

Arts Economics polled approximately 5,000 dealers in Europe, the US and other art markets (Mc Andrew, 2010). The survey was distributed in 2009 by CINOA (Confédération Internationale des Négociants en Oeuvres d’Art) to its membership galleries. Unlike our sample, this sample includes not only art galleries, but also art dealers who operate only in the secondary market and
with no official gallery space. The category of interest is not limited to Fine Art; several other categories are represented including Book & Manuscript, Furniture and Jewellery. Furthermore, the survey was distributed globally and results are therefore not limited to Germany, Switzerland and Austria. We must therefore be careful not to overinterpret the results. However, they can provide a significant snapshot of the global dealer population and give some relevance to our results.

Our results broadly reflect those of the Arts Economics survey in several respects. When looking at the revenue structure of the market, according to the Arts Economics survey, most dealers’ businesses are small and medium enterprises (SMEs) with revenue of less than €2 million. We find a similar pattern when looking at dealers by annual turnover in 2008. The biggest two groups are in the lowest two categories, i.e. below €500,000 (42%) and between €500,000 and €2,000,000 (44%). Our results also showed that 78% are in the revenue category under €500,000 and still another sizeable proportion of 20% in the category below €3,000,000.

Another similarity can be found regarding art fairs. The biggest percentage of dealers in the Arts Economics sample stated that approx. 30% of their revenue is generated at art fairs or similar external events: 90% of our respondents agreed that they raised about one third of their revenue through art fairs. Finally, dealers in the global survey acknowledge the relevance of art fairs. 62% agreed or strongly agreed that the continued growth of art fairs had been a positive development in the art market. In our sample more than 80% claim that they wish to participate in an equal number of or even more art fairs in the future.

A study by the BVDG, conducted in 1999 and published in 2000, allows another interesting comparison. In the survey 430 member galleries of the association were approached, with 49 respondents. Their group sample is almost identical to parts of our sample, although our sample is wider since we included galleries from other gallery associations, as well as Switzerland’s and Austria’s galleries. Hence, although the participation number is relatively small, the results help to validate our findings and serve as a suitable tool for comparison. In order to achieve the most accurate results from the comparison, we will use our data for Germany only.

Looking at the foundation year of galleries reveals both a similarity and a striking key difference. In both studies, most galleries replied that they founded their gallery within the past 9-19 years. However, while in the BVDG study the average for the foundation year was 1979, the average has now increased to 1998, i.e. only ten years back. It appears that galleries are now younger, with almost 40% of today’s galleries founded in the past nine years, compared to only 12.5% in the BVDG study.

Other similarities are that the majority of galleries in both studies do not have gallery branches, are usually located in city centres in major cities, employ 0-1 full-time employees (and only very rarely more than three) and 0-1 part-time employees. Furthermore, they held six exhibitions a year in 1999, increasing by only one to seven annual exhibitions for our study. When asked who
visits the gallery most, in 1999 galleries named the Vernissage crowd, followed by art enthusiasts; then the passing public, followed by clients. Answers are similar in our study. While the Vernissage crowd and the art enthusiasts are still the most frequent visitors, they are followed by artists and then finally collectors and dealers. When asked for their most frequent clients, gallerists in 1999 named private clients, followed by corporate, art dealers, museums and auction houses. Again, we find here that the customer structure has not changed much. Today gallerists rank private clients first, followed by corporate and then dealers. Moreover, the level of participation at art fairs has not changed. This is surprising since in 1999 we find that almost 45% wished to extend their participation in art fairs, compared to only 22% today. It seems that only some galleries have intensified their participation frequency while on average the number remained stable throughout.

The second really striking difference between the two studies follows on from this point about art fair participation. In 1999 the revenue generated at art fairs was 29.9%. Almost ten years later this figure has halved to only 15%. This might be due to increased competition: in general, the number of art fairs has increased dramatically over the past ten years, while the demand (buyers) has not increased as rapidly. So when more offers meet fewer buyers each gallery ends up with less money. In any event, this figure is interesting because it contradicts the industry trend that art fairs are more and more important to the revenue structure. Our data shows that the importance of art fairs to the income stream has actually fallen to a much smaller percentage than previously.

Interestingly, we also find sharp changes concerning profitability. In 1999, the revenue was €377,000. Almost ten years later, revenue has increased to €426,900 or in other words by 13%, equal to an average growth rate of 1.3% and broadly in line with inflation. While this indicates stability, we find the reverse is true when it comes to profit, with a fall over the past 10 years. In 1999 researchers found that profit was 8.9% of revenue, i.e. €33,553. Today, profit is on average €21,670, which equals 4.6% of the revenue.

Overall, we can state that most variables remained stable over the past ten years. It seems that galleries have not changed much, at least outwardly. They continue to be located centrally in major cities, employ few staff, organise 6-7 exhibitions per year, participate at two art fairs and attract a similar composition of visitors and buyers. However, the profit pattern shows sharp changes. Profit has fallen to almost a half of what it was ten years previously. In the end, galleries make less profit than they did before.

One possible explanation can be drawn from the revenue generated at art fairs. Over the past 10 years this has halved to only 15% of total revenue (whereas in 1999 it was still almost 30%), while costs of participation have remained stable or even increased. It appears that the increased competition has led to decreased income, at least at art fairs. Galleries managed, however, to navigate around this. Although more and more new galleries are entering the market (illustrated by an astonishing increase in the average foundation year of nearly 20 years), galleries managed
to increase their revenue and stay in the profit zone, yet below the 1999 level. In the light of changing market situations, this number seems remarkable but also demonstrates the sheer market competition galleries suffer from.

To sum up, we find that both the existing surveys by Arts Economics and the BVDG lend support to our results and validate them. In particular the BVDG survey allows a detailed comparison with some interesting features that will be included later in our discussion of the results.

**Table 23: Comparison of Our Study (2008) with the BVDG Study (1999)**

<table>
<thead>
<tr>
<th>Items</th>
<th>BVDG study (1999)</th>
<th>Our study (2008, Germany only) (Resch)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year of Foundation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>over 29 years ago:</td>
<td>18.8%</td>
<td>over 29 years ago: 5.1%</td>
</tr>
<tr>
<td>within past 29-19 years:</td>
<td>29.2%</td>
<td>within past 29-19 years: 8.3%</td>
</tr>
<tr>
<td>within past 19-9 years:</td>
<td>39.6%</td>
<td>within past 19-9 years: 45.8%</td>
</tr>
<tr>
<td>within past 9 years:</td>
<td>12.5%</td>
<td>within past 9 years: 41.6%</td>
</tr>
<tr>
<td>Average:</td>
<td>1979</td>
<td>Average: 1998</td>
</tr>
<tr>
<td><strong>Gallery Branches</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes:</td>
<td>14.6%</td>
<td>Yes: 10.0%</td>
</tr>
<tr>
<td>No:</td>
<td>85.4%</td>
<td>No: 90.0%</td>
</tr>
<tr>
<td><strong>Gallery Location</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major City:</td>
<td>95.8%</td>
<td>Major City: 89.0%</td>
</tr>
<tr>
<td>Minor City:</td>
<td>4.2%</td>
<td>Minor City: 11.0%</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0:</td>
<td>43.5%</td>
<td>0: 25.2%</td>
</tr>
<tr>
<td>1:</td>
<td>26.1%</td>
<td>1: 42.6%</td>
</tr>
<tr>
<td>2:</td>
<td>10.9%</td>
<td>2: 21.1%</td>
</tr>
<tr>
<td>3:</td>
<td>13.0%</td>
<td>3: 4.1%</td>
</tr>
<tr>
<td>&gt;3:</td>
<td>6.5%</td>
<td>&gt;3: 6.0%</td>
</tr>
<tr>
<td>Part-time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0:</td>
<td>38.6%</td>
<td>0: 22.1%</td>
</tr>
<tr>
<td>1:</td>
<td>43.2%</td>
<td>1: 57.7%</td>
</tr>
<tr>
<td>2:</td>
<td>11.4%</td>
<td>2: 12.7%</td>
</tr>
<tr>
<td>3:</td>
<td>4.5%</td>
<td>3: 5.1%</td>
</tr>
<tr>
<td>&gt;3:</td>
<td>2.3%</td>
<td>&gt;3: 2.5%</td>
</tr>
<tr>
<td><strong>Number of Exhibitions</strong></td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td><strong>Visitors to an Art Gallery</strong></td>
<td>1. Vernissage crowd</td>
<td>1. Vernissage crowd</td>
</tr>
<tr>
<td></td>
<td>2. Art enthusiasts</td>
<td>2. Art enthusiasts</td>
</tr>
<tr>
<td></td>
<td>3. Passing public</td>
<td>3. Artists</td>
</tr>
<tr>
<td><strong>Buyers at an Art Gallery</strong></td>
<td>1. Private clients (established collectors)</td>
<td>1. Private Clients (art lovers)</td>
</tr>
<tr>
<td></td>
<td>2. Private clients (new collectors)</td>
<td>2. Private Clients (art connoisseurs)</td>
</tr>
<tr>
<td></td>
<td>3. Corporates</td>
<td>3. Corporates</td>
</tr>
<tr>
<td></td>
<td>4. Art dealers</td>
<td>4. Dealer-Collector</td>
</tr>
<tr>
<td></td>
<td>5. Museums</td>
<td>5. Investors</td>
</tr>
<tr>
<td></td>
<td>6. Auction houses</td>
<td>6. Dealer/Art consultants/Gallerist</td>
</tr>
<tr>
<td><strong>Participation at Art Fairs</strong></td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
### 3.3 Analysis / Results of Data

In the following we present the results of the data we generated and thus answer the supplementary questions to our research question

- What are the most relevant statistics to describe the business model of art galleries?

- What are the existing and potential success factors?

Since these questions follow a logical line of thought, we start with the presentation of the descriptive statistic data. This forms the basis of our argument for further analysis. Then, the business model concept is used as a tool of analysis to identify factors that are particularly important for art gallery performance.

#### 3.3.1 Analysis Based on Descriptive Statistics

In an attempt to provide a description of the art gallery business model summary statistics are presented first. The focus lies on providing the reader, who might very well be uninitiated into the art gallery industry, with an overview. The key question is: What are the most relevant statistics to describe the business model of art galleries?

Given that the last survey on art galleries was conducted 10 years ago (see above) with only a small number of art galleries participating, our data provide valuable insights into the art gallery industry. Since the questionnaire was sent to galleries in three different countries, in some cases we may also compare data from the three countries.

The questionnaire was sent to 1,100 galleries in Switzerland, Germany and Austria. We received responses from 435 galleries, 378 of which were ultimately usable. The remaining 57 galleries were omitted as data was missing or incorrect. 178 galleries left e-mail addresses to be informed on results of the survey.

In total, we received 317 responses from Germany, 36 responses from Switzerland and 25 from Austria.

<table>
<thead>
<tr>
<th>Art Fairs in the Future</th>
<th>More: 43.5%</th>
<th>Less: 8.7%</th>
<th>Similar: 47.8%</th>
<th>More: 21.5%</th>
<th>Less: 20.5%</th>
<th>Similar: 58.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>€377,000</td>
<td>€426,900</td>
<td>29.9%</td>
<td>15%</td>
<td>8.9%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Revenue generated at Art Fairs (as % of total revenue)</td>
<td>29.9%</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit (as percentage of revenue and total value)</td>
<td>8.9% €33,550</td>
<td>4.6% €19,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In the following we will summarise key characteristics of the 378 galleries that form the respondent sample.

### 3.3.1.1 Year of Foundation

The average gallery foundation year is 1998. Interestingly, only 6% of the galleries were founded before 1980, while 11% were founded after 2005. This shows that there is a heavy fluctuation in the market and lasting presence on the market seems – at least for the majority – to be an unreachable goal. Those that manage to survive for more than 30 years are in a tiny minority.

When comparing the three different countries we find a higher percentage of galleries in Austria and Switzerland with a presence of over 30 years. In Austria 12% of respondents have been trading for over 30 years, and in Switzerland the comparable figure is 14%. In Germany, however, this group consists of only 5% of galleries. Two reasons are possible. First, Austrian and Swiss galleries are not exposed to the heavy competition that we see in major cities in Germany, and can therefore secure a modest living. More likely, though, the answer lies in the number of galleries that opened in the past 10 years. 41% of all German galleries were founded in the past decade (since 2001), compared to only 36% in Austria and 28% in Switzerland. When fewer galleries are founded, fewer existing galleries need to close down – a phenomenon we have observed in Berlin over the past few years during the crisis.

Furthermore, the data also demolishes the myth that galleries were an established and traditional businesses. It seems that art gallery owners have not managed to find suitable successors to continue running the gallery. Many, when their official time as gallerist comes to an end, keep the gallery running but only as a formality because state regulations complicate the termination of a gallery. German legislation imposes heavy tax duties on the transfer of business assets into
private assets, so gallery owners struggle to find ways to officially terminate or hand over their businesses.

**Figure 24: Year of Foundation of Art Galleries**

<table>
<thead>
<tr>
<th>Year of Foundation</th>
<th>Overall</th>
<th>Germany</th>
<th>Austria</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>before 2000</td>
<td>5%</td>
<td>12%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>2000-2010</td>
<td>8%</td>
<td>10%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>2011-2020</td>
<td>30%</td>
<td>44%</td>
<td>15%</td>
<td>32%</td>
</tr>
<tr>
<td>2021-2025</td>
<td>28%</td>
<td>32%</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>after 2025</td>
<td>19%</td>
<td>4%</td>
<td>11%</td>
<td>0%</td>
</tr>
</tbody>
</table>

### 3.3.1.2 Type of Art Sold

Galleries were asked about the type of art they sell. We classified the Fine Art category into five sectors: Old Masters (Giotto – Constable), 19th Century Art (excluding Modern Art), Modern Art (Impressionist – beginning of 2nd World War), Post-War Art (artists born between 1920 and 1944) and Contemporary Art (artists born after 1945).

84% of the analysed galleries deal in Contemporary Art. Additionally, some galleries that deal in Contemporary Art also deal in Post-War Art (8%) and Modern Art (7%). Galleries trading in Old Masters and 19th Century Art account for less than 1%.

When comparing the three countries we find that Austria seems to focus almost entirely on Contemporary Art (96%). Only one gallery deals with Modern Art. Germany follows this overall picture with a heavy focus on Contemporary Art and marginal focus on Modern and Post-War Art. Switzerland’s distribution is different, since we find more diversification within the market segments. 67% deal in Contemporary Art, while 17% also deal in Modern Art and 15% in Post-War Art. Switzerland seems to emerge as a trading floor for non-Contemporary Art. Swiss dealers and galleries deal heavily in these works on the international markets. In fact, statistics from Switzerland report 56% export revenue with Swiss art galleries and art dealers. This data does not reveal which category is driving the result, however, we can estimate that it mainly derives from non-Contemporary Art categories (Weckerle, p. 63).  

7 In order to facilitate reading following graphics, we have highlighted each average score with small black boxes and connected the points with a dotted line. The dotted line does not make any predictions concerning the x-axis.

8 We must be cautious with this data, since this statistic includes not only art galleries but also art dealers.
3.3.1.3 Gallery Location

Galleries were also asked about their location. First, they were asked whether their gallery is located in a major city (>100,000 inhabitants) or a minor one (<100,000 inhabitants); second, if their gallery is in the centre of the city, or decentral (located in a suburb).

89% of the galleries are located in major cities. This is striking, considering most cities in Switzerland and Austria are rather small with less than 100,000 inhabitants. Galleries from St. Gallen, for example, a thriving and dynamic art spot with a museum, Kunsthalle, theatre, etc. are classified in the minor city category. The low number of only 19% shows that galleries are predominantly located in big cities, such as Zurich or Vienna.

When it comes to the actual location of the gallery in the city (central or decentral) we find that most galleries, regardless of the size of their city, are centrally located (85% of major city galleries and 65% of minor city galleries). Clearly, a higher percentage of galleries in minor cities are decentral.

When comparing the three countries Germany’s minor city galleries show a higher percentage that are decentralised, while Swiss galleries are below the total average.
3.3.1.4 Gallery Size and Subsidiaries

It is also interesting to analyse the actual size of galleries (defined in m², including office, excluding warehouse). The average size of the galleries is 163m². Across the three countries we find that Austrian and Swiss galleries are on average larger. Both have an average of 205m², while Germany galleries are only 155m².

Galleries were asked about subsidiaries/branches. 87% have no subsidiary, with the remaining 13% owning another gallery at a different location. Very few galleries therefore attempt to expand in size. When relocating, as we saw five years ago with the big movement from various galleries to Berlin, galleries tend to close down their current location in favour of a new one, rather than keeping both. Huge rent, organisational complexity and increased fixed costs are all reasons for not keeping two galleries. Economies of scale do not seem to outweigh the costs. Given that galleries cite rent as their primary cost, it is not surprising that most galleries only operate in one location.

Looking at the three countries individually, although galleries with subsidiaries are still in the minority, there is a considerable difference between Germany, with only 10% of galleries having a subsidiary, and Austria and Switzerland, where 24% and 31% respectively own a subsidiary.
3.3.1.5 Employees

Galleries were asked about headcount (full-time and part-time) to give an overview of the employment rate in the gallery industry. Interestingly, the great majority of 68% answered that they employ only one full-time employees or less. Very few, only 4%, have five or more employees.

Each country follows a similar pattern, with the majority (64 - 75%) employing only one staff member, while similarly only very few employ more than five (3 – 6%).

This poses the question of how galleries run their business if employment rates are very low. An analysis of part-time employee numbers does not give an answer. As with full-time employees, we find that a majority of 78% employs only one part-time staff member or less. Again, in total only 1% of the galleries interviewed employ more than five part-time staff members. Across the
three countries, we find that Austrian galleries tend to employ more part-time staff member while these numbers vary only marginally with German and Swiss galleries.

Figure 29: Number of Part-Time Employees

As this data shows, most galleries are very small businesses with only two employees (one part-time and one full-time). This seems fairly consistent with existing employment statistics. In Germany, according to the BMWI report (2009a, p. 84), in 2008 there were 1,900 businesses directly related to the art market (galleries, auction houses, trading). Together with museum shops, art organisations etc. (1,000 businesses) they employ 5,700 people (full- and part-time), i.e. an average of approximately two people per business. In Switzerland for the year 2008 we have more concise statistics. For the group of art galleries and art dealers we find 1,387 people employed in 580 workplaces (in art galleries and with art dealers), which adds up to 2.4 employees per workplace (Weckerle & Theler, 2010). Or, to put it another way, according to the statistics 73% of all workplaces are only filled by 1-2 employees. Only 5% of all galleries and art dealers have more than five employees (Weckerle, 2008, p. 62).

3.3.1.6 Number of Exhibitions

Looking at the number of exhibitions held per year, we find that on average galleries in the sample hold seven exhibitions per year. The sample shows that the majority of galleries (91%) hold five or more exhibitions per year, while only 9% hold fewer than five.

Comparing the three countries we find a similar pattern across all three. Only Switzerland varies slightly, with the biggest group of galleries favouring eight to nine exhibitions (44%) while fewer galleries organise 5-7 exhibitions (36%).
3.3.1.7 Cost Structure

To get more insight about their cost structure, galleries were asked to rank their highest costs from a given list of items. The items, based on industry research and previous works by the author (Resch, 2007, 2008), were transportation costs, salaries, rent, insurance, IT, catalogues, support functions (lawyers, consultants, builders), fee for art fairs, advertising, and others.

Gallerists’ answers show that they consider rent to be their highest cost unit, followed by fees for art fairs. Salaries rank only third, and fourth is transport costs. Items one would expect to see in the top three in fact come fifth and sixth: advertising, at five, and catalogues, at six. Insurance (at position 7), IT (at 8) and lastly support functions (such as lawyers, hangers etc.) seem not to play a relevant role in the cost structure of an art gallery. By country, the pattern does not differ.

Figure 31: Ranking of Cost Units
3.3.1.8 Visitors to the Gallery

Galleries were also asked about the composition of visitors to the gallery. Galleries had six categories to choose from and were asked to rank them by frequency of visit. The options were the Vernissage crowd (only interested in the event), art enthusiasts (typical museum visitors, who enjoy art), the passing public (casual visitors who just walk in), artists, collectors (who actually show buying potential) and dealers/art consultants/gallerists.

Art gallery owners ranked the Vernissage crowd to be the most frequent visitors to the gallery per year. This is understandable, considering that opening parties usually attract a great number of people with little or no interest in the art but considerable interest in the event. It is very rare for a serious collector to buy art at an opening. Either the deal has been done beforehand or purchases are made later. Ranked second are art enthusiasts, i.e. the usual museum visitor. They are inspired by art, but do have the money at one’s disposal to purchase an artwork. They are the ones that usually engage in long conversations with the gallerist trying to demonstrate their vast knowledge. The third biggest visitor group to an art gallery are artists, motivated by two reasons. Either they are visitors out of professional interest because they want to introduce their work to the gallery owner, hoping – although it rarely happens – to be included in the gallery’s programme, or they want to see the exhibition of a friend. Fourth on the list, we find the most valuable group of visitors to a gallery – the collectors, i.e. people who really intend to buy or at least have the potential to do so. Ranked fifth and sixth are the passing public and dealers/art consultants/gallerists. Interestingly, considering that most galleries have exhibition space in central locations in major cities, the passing public is ranked only fifth. This shows that there are psychological barriers in the public’s mind to entering a gallery which have long been evident, and which remain unresolved. Furthermore, this observation is insightful since it gives us an idea of the relevance of the location of a gallery.

Figure 32: Ranking of Visitors

<table>
<thead>
<tr>
<th>Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Vernissage Crowd</td>
</tr>
<tr>
<td>2  Art-enthusiasts</td>
</tr>
<tr>
<td>3  Artists</td>
</tr>
<tr>
<td>4  Collectors</td>
</tr>
<tr>
<td>5  Passing public</td>
</tr>
<tr>
<td>6  Dealers/art consultants/gallerists</td>
</tr>
</tbody>
</table>

3.3.1.9 Buyers Structure

In addition, we asked galleries to rank their clients according to frequency of purchase. Possible buyers were categorised into the following: art connoisseur (one-off buyer), art lover (old-school
type of collector with a deep passion for art), investor (speculator), dealer-collector (mixture of investor and dealer), and corporate collector.

We find that the most frequent buyer at an art gallery is the art lover, i.e. the old-school type of collector. Art lovers buy art for the love of it, to extend collections and as a source of inspiration. They are keenly interested in the development of the artists and usually have a lasting and strong relationship with the gallery owner. For the gallery owner the art lover is the cornerstone of the success of his gallery. Every gallerist would be happy with one or two of this group. The second group in the list of buyers is Art Connoisseurs, i.e. one-off buyers, who buy to signal (or to aspire to) social status, or for decorative purposes. They usually do not establish a lasting relationship with the gallery, and disappear as quickly as they emerged. Ranked third are corporate collectors. Today, many major firms have set up an art foundation with a big budget for buying art. Deutsche Bank, UBS or Würth are only some examples of companies with heavyweight art collections. Ranked fourth are dealer/collectors and in final place, investors. It is worth pointing out that investors do not seem to have entered the German-speaking gallery market. This movement seems to focus more on emerging markets, such as India or China where risk is higher but the possible price growth immense.

Looking at the three countries individually, these rankings do not vary.

Figure 33: Ranking of Buyers

<table>
<thead>
<tr>
<th>Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Art lover</td>
</tr>
<tr>
<td>2 Art connoisseur (one-off buyer)</td>
</tr>
<tr>
<td>3 Corporate collector</td>
</tr>
<tr>
<td>4 Dealer-collector (mixture of investor and dealer)</td>
</tr>
<tr>
<td>5 Investor (speculator)</td>
</tr>
</tbody>
</table>

3.3.1.10 Competitors

In order to analyse the competitive environment, we asked galleries to rank their key competitors from a list comprising other galleries, art dealers, museums, artists, auction houses, and others.

As one would suggest, other art galleries were ranked as the number one competitor. Surprisingly, artists were ranked in second place. What initially seems surprising makes sense considering the fact that artists can sell artworks straight through their studios, skipping the margin of their gallery. This behaviour seems to be common practice in the industry and is well known by the gallerists. Interestingly, they have not found ways to stop this.\(^9\) Ranked third are

\(^9\) One could argue that this group of competitors also includes unrepresented artists, i.e. those artists that do not have representation on the market and act as their own gallery. In this role this group also acts as competitor to the gallerist. Through interviews and market research we can, however, be certain that unrepresented artists are not
art dealers who either buy artworks straight from the studio or through auction houses. Consequently, auction houses are ranked fourth, particularly as artists have started to sell their work directly through an auction house, rather than through a gallery. Lastly, we find museums and others.

Again, these rankings do not vary by country.

**Figure 34: Ranking of Competitors**

<table>
<thead>
<tr>
<th>Competitors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Othergalleries</td>
<td></td>
</tr>
<tr>
<td>2 Artists</td>
<td></td>
</tr>
<tr>
<td>3 Artdealers</td>
<td></td>
</tr>
<tr>
<td>4 Auction houses</td>
<td></td>
</tr>
<tr>
<td>5 Museums</td>
<td></td>
</tr>
<tr>
<td>6 Others</td>
<td></td>
</tr>
</tbody>
</table>

### 3.3.1.11 Participation at Art Fairs

As indicated earlier, art fairs play a substantial part in the yearly programme of most art galleries. We therefore asked gallerists at how many art fairs they participated in 2008 and how they see the future development of art fairs.

Our results show considerable differences between galleries; 50% of galleries participate at either one or two art fairs per year: 25% participate in one, 25% in two. 16% participate in three, and even 17% in more than three. However, only 1% participated in more than six art fairs. 17% did not attend any art fairs in 2008.

When we compare the three countries we see a different picture. While in Germany 26% participated in one and equally 26% in two art fairs in 2008, it is in Austria where art fairs play the most significant role. Only 4% did not attend an art fair in 2008, compared to 25% in Switzerland and 18% in Germany. Furthermore, 48% of all Austrian galleries participated in three or more art fairs, compared to only 31% in Germany, and 35% in Switzerland.

Galleries were also asked if they think they will participate in more, fewer or an equal number of art fairs in the future. 60% claim that they will attend a similar number of art fairs, 22% believe they will go to more and only 18% will attend fewer. We find a similar pattern in the three countries. Galleries in Austria, already the country with the most frequent participation at art fairs, plan to attend an equal number in the future (84%), similar to Germany with 58% and Switzerland with 53%.

regarded as competitors by most gallerists because their impact/price structure and value creation is of only marginal relevance.
3.3.1.12 Customer Potential

Every business plan needs to include a number indicating how many customers the business can serve. We therefore also asked galleries for their customer potential as an indicator of the potential they see in the market. Out of 378 galleries interviewed, 322 (i.e. 85%) could not give us an answer. The remaining 56 galleries responded with numbers ranging from 5,000 to 30,000, giving us an average of approx. 500 customers.

Possibly, galleries have never really thought about this and consider it an abstract number, leading to the small amount of useful feedback on this question.

3.3.1.13 Revenue

We asked galleries to provide us with information on their revenues in 2008. In order to increase response rates, we provided revenue categories that made it easier for galleries to respond, and lowered psychological barriers to giving up this piece of highly confidential information. Categories were as follows: <€100,000; €100,000-€300,000; €300,001-€500,000; €500,001-€700,000; €700,001-€900,000; €900,001-€1,000,000; €1,000,001-€3,000,000; €3,000,001-€5,000,000; €5,000,001-€10,000,000; and >€10,000,000. In order to better present the results we have clustered existing ten categories into five categories (see figure below).

Only 22% state revenue of more than €500,001, leaving 78% of respondents in the lowest categories with revenue of €500,000 or less. 21% fall in the lowest categories (below €100,000), 57% in the next category (€100,000-€500,000). Only one in five respondents indicates revenue of more than €500,000. Interestingly, only four galleries in total have revenue of above €5,000,001 and among them only one exceeds €10,000,000. On average galleries in the sample generate revenues of €470,900.
By country, we find the majority of galleries in all countries fall in the range of €100,000-€500,000 (57% in Germany, 68% in Austria and 50% in Switzerland). Almost 90% of Germany’s galleries show revenue of less than €500,000, compared to 90% of Austria’s galleries and only 67% in Switzerland. Switzerland’s galleries have a higher revenue with 33% over €500,000 compared to only 20% in Austria and 20% in Germany. Consequently, average revenue levels vary by country: German galleries on average generate a revenue of €426,800, Austrian galleries have slightly lower revenue of €388,000. Swiss galleries, in contrast, generate an average revenue of €916,700, which is more than double the revenue of Austrian or even German galleries.

Switzerland’s high turnover could result from its intensive international dealing endeavours. While Germany and Austria do trade internationally, it seems that Switzerland emerges as a strong international art trading platform. As we stated above, Switzerland deals heavily in non-Contemporary art – an indication of its strong capabilities in dealing and trading art. Moreover, statistics for Switzerland report 56% export revenues by Swiss art galleries and art dealers (Weckerle, p. 62). The Art Gallery Association Switzerland attributes Switzerland’s high revenue to a huge collector base, tax reasons, excellent infrastructure, waiving resale rights, lower expenses in the absence of artists’ social security funds, low VAT rates and simple tax procedures (AGS Verband Schweizer Galerien, 2006). They conclude “These elements lower costs and raise the galleries’ and the artists’ net turnover” (AGS Verband Schweizer Galerien, 2006, p. 1).

Figure 36: Revenue of Art Galleries in 2008

### 3.3.1.14 Revenue at Art Fairs

A key question that has emerged, then, is the origin of the higher Swiss revenue. We therefore asked galleries to state what percentage of their revenue is generated at art fairs. Across the entire sample, we find that approx. one half of the galleries generate 10-20% of their revenue at
art fairs – a substantial number considering that most galleries participate at only one to three art fairs. One third of all galleries interviewed generate less than 10% of their revenue at fairs. However, 17% of all galleries interviewed generate even more than 20% of their revenue at art fairs. A similar distribution can be found by country.

Figure 37: Revenue at Art Fairs in 2008

3.3.1.15 Profit

A key question is how profitable art galleries really are. The simple answer is – very modestly. We asked galleries to indicate their profit margin (net profit in percent of revenue) according to the following categories: -10 to -1% of revenue, <1%, 1-5%, 6-10 %, 11-15 %, 16-20 %, and >21 %. In order to better present the results we have clustered the existing seven categories into four.

First, we find that almost 40% of all galleries are loss making. Second, about one third of galleries achieve only modest profit margins in the 0-10% region. However, 26% of galleries achieve profit margins of more than 10%. Overall, the average profit margin of all galleries in the sample is 4.6%.

Looking at the countries individually, we find that Germany and Austria show similar characteristics with 75% and 88% respectively occupying the first two categories (-10 to 10%). Switzerland, in contrast, seems far more profitable and reverses this trend with only 47% in the first two categories. 53% of the galleries interviewed in Switzerland make a profit of more than 10% of their revenue. 22% of all Swiss galleries even exceed 21% profit on revenue, compared to only 9% in Germany and 8% in Austria.

Looking at the average percentages for each country we find striking differences. Austria has a small negative ratio, as profit as a percentage of revenue is only -0.30% (€-1,200). Profit in Austrian galleries seems to tend towards 0, making it a lost sum game. Germany’s galleries have an average ratio of 4.6% (€19,600) which is higher than Austria’s, but still very small. Because
of Germany’s huge sample size, the average score for all galleries is almost identical. Interestingly, Switzerland’s ratio is more than double that of Germany with around 10.1% (€92,600). As with Swiss revenue numbers, it seems that Swiss galleries manage to maintain a relatively high profitability, quite possibly for similar reasons.

Figure 38: Profit of Art Galleries in 2008

Overall, the classification statistics give us a very good insight into the art gallery market and its composition. These results show that in general most galleries operate a very similar business model with very similar components. A large majority of art galleries generate only small revenues and are not really profitable.

When comparing the three countries, we find that, while in most dimensions there are only small differences among them, Swiss galleries generate higher revenue and are more profitable. A possible explanation for this could be external factors, such as a more convenient tax system, reduced expenses in the absence of an artists’ social security fund, a bigger or a higher quality customer base. While galleries have no direct influence on these factors, the Swiss case presents us with another interesting finding: As we have identified above, Swiss galleries are more involved in dealing Modern and Post-War Art. The higher value of these works compared to Contemporary Art could be one reason for their higher revenue.

In summary, this data presents us with an interesting overview of and insight into the art market. However, it could not give us a feasible explanation why some galleries generate higher revenues or profits than others. It will be the task of the following section to analyse and further elaborate on this in order to identify success factors for profitable gallery businesses.

3.3.2 Analysis Based on Regression

This section complements the descriptive analysis above by investigating each of Bieger’s dimensions in detail. The key question with reference to our research question is: “Which dimensions of the business model concept have the most/ least impact on performance?” Or,
more practically: how much would an art gallery’s profit increase if it engaged more in certain dimensions of Bieger’s model?

3.3.2.1 Principal Component Analysis (PCA)

We stated above that we decided to conduct the regression via principal component analysis (PCA). Principal component analysis transforms a number of possibly correlated variables into a smaller number of uncorrelated variables. So in our case for each dimension of Bieger’s model we form a continuous proxy variable by extracting the first principal component. If the resulting measures are true proxies, then our results will not suffer from attenuation bias (Wooldridge, 2009). Bloom et al. (2007) follow a similar approach in their investigation of the impact of management practice on economic performance across countries. Considering all of the drawbacks in the data collection process and how we make this data available for our regression analysis we consider this procedure as robust. Taking into consideration the statistical limitations, we apply this “best you can do” approach to the data at hand.

To kick off the analysis of the regression results we will start by having a closer look at Table 37 with Boxes 1-9. Boxes 1-9 show the results of the principal component analysis. We see that the first principal component often captures as much as half of the variance in the underlying questions. This is suggestive of the high internal validity of the questionnaire. In fact, the result demonstrates that the first principal component explains the variance in all but one case well above 50%, and never less than 40%.

The dimension of Bieger’s business model captured in Box 1 is value proposition. The results shown in Box 1 demonstrate that our single measure of our value proposition (i.e. the PCA of this dimension) is able to capture 61% of the variance of this dimension. Examining the eigenvector reveals that the last two questions contribute slightly more to the first principal component (whereas the second principal component is made up almost exclusively of value_1).

The principal components constructed in Box 2 measure Bieger’s customer concept. Despite the questions asking for different aspects for customer concepts, the first principal component captures more than 80% of the total variance. We think of this as proof of the validity of our approach, i.e. a single variable appears to be able to capture such a heterogeneous concept as customer relationship concept. Looking at the eigenvector shows that all three questions are of roughly equal importance. Again, the second principal component is captured almost exclusively by customer_1.

Box 3 deals with the communication concept. Again, we can explain a high proportion of the variance with the first principal component (61%). As in the previous case the eigenvectors shows that all four questions enter approximately equally.

Interestingly, the principal component for the revenue concept can capture only 50% of the variance in the following questions (Box 4). A look at the questions reveals that while all questions deal with income possibilities they vary extensively. Revenue_1 and Revenue_2 deal
with the field of operation (primary or secondary market); Revenue_3, in contrast, asks for extra income streams that complement the main business (extra services). Revenue_4, finally, asks about additional income streams through art agents. This diversity and richness of the questions for the revenue concept explain its relatively high variance, which is demonstrated by a comparable low principal component.

Again, the principal component for the growth concept (Box 5) captures only 44% of the variance in the subsequent questions. The low principal component score indicates widely varying answers concerning the growth concept. The analysis of the eigenvectors reveals that the first question contributes the most to the first principal component, yet is not substantially larger than those that follow it. This is interesting because growth_1 describes galleries’ ambitions to grow. It seems that galleries’ approaches to growth vary within the sample. While some prefer to grow via a greater share of wallet (growth_2), others enter new markets (growth_3). The funding of growth varies, as well. Some seem to have developed financial models (growth_4) that support their growth concepts. Interestingly, while the last one still enters positively into the first component, its influence on the second principal component is almost twice as large. The signs of the second eigenvector’s elements show that a portion of the last two questions is orthogonal to the first two. This means that the last two questions capture aspects separate from those on which the first two questions focus. A closer look at the questionnaire reveals that these questions revolve around issues rarely considered within the art gallery industry. Entering new markets (growth_3) and the development of a financial model (growth_4) is still very rare in the market. This might explain their reversed loading.

In Box 6 we deal with the competence configuration. The first principal component captures 75% of the variance in the two questions in our questionnaire. Again we find that the first two questions have greater influence on the first principal component but on the same level. This suggests only one interpretation: that the first two questions capture separate aspects of the core competency concept. Since both contribute equally, and to a similar extent management and intuition are relevant core competencies.

The principal component for Box 7 captures almost 72% of the variance in our questions related to the organisation concept. With the exception of the last question all contribute equally to the first component. Like Box 5, the last question is less important to the first component but much more so to the second. Again, we find that organisation_4’s influence on the second principal component is almost twice as large and enters with reversed factor loadings. One possible interpretation is that while all four questions are related to good organisational skills the last question emphasises organisational structure as the result of explicit planning efforts. This is very similar to Box 5 where the final question also asked for an explicit planning endeavour (development of a financial model).

Another very high proportion (74%) of the variance is captured through the principal component for the cooperation concept (Box 8). Again, all questions revolve around the composition of the
network partners. Cooperation_1 and cooperation_2 both ask if galleries engage in cooperation with a group of partners (specifically galleries in cooperation_1 and non-art partners in cooperation_2). The final question asks for the length and extent of the cooperation. Interestingly, while all questions are equally important for the first principal component, cooperation_2 stands out with respect to the second principal component. An admittedly vague interpretation could be that the second principal component measures explicit planning effort against cooperation whereas the first principal component measures the actual cooperation, planned or unplanned.

Box 9 deals with the *coordination concept*. Again we find a very high proportion of almost 70% of the variance in the underlying questions captured by the first principal component. As with Boxes 3 and 4, the elements of the first eigenvectors are similar in size.

Overall, we find that our approach seems adequate. Firstly, Boxes 1 - 9 demonstrate that a single variable is able to capture a substantial part of the variation contained in the answers to specific questions related to the same concept. Contrary to naive survey methods it does not appear necessary to consider each question separately. The method of PCA allows summary measures to be constructed that capture the essence of the each of the nine components of Bieger’s business model. Secondly, while all factor loadings are positive with respect to the first principal component, the different signs with respect to the second component are not surprising as each question was designed to capture different aspects within the boundaries of a single concept. Hence, while we are able to capture the core of each concept our approach leaves room for further analysis that considers finer elements. Thirdly, this begs the question why we don’t consider the second principal component. The answer is simply that we do not have enough statistical power to draw meaningful conclusions.

### 3.3.2.2 Linear Regression Analysis

Next we move to the actual presentation of the results of the regression.

In a linear regression context, multi-collinearity can pose a serious problem up to the point that certain coefficients cannot be identified at all. In this data the consequences are less extreme, but noticeable. Given that Bieger’s dimensions fall short of perfect multi-collinearity, the well known Frisch-Waugh theorem shows that OLS estimates are unbiased and consistent. They are identified only from variation orthogonal to all other covariates. However, the multi-collinearity does affect the precision of the estimates adversely. This explains, as we will see later on, why many of them are only marginally statistically significant, although they are economically large.

Table 24 presents simple correlations between the different dimensions of Bieger’s model. We observe that some concepts are highly correlated: the customer concept and the organisation concept are highly correlated to most of the other concepts.
The customer concept shows a correlation with revenue of .75. It seems that targeting the right customer is strongly linked with revenues, although at this point we cannot confirm its positive dependence. Furthermore, the customer concept and the cooperation concept are highly correlated by .79. This implies that engaging in excellent cooperation and creating a network of partners is related to customers. At this stage we cannot conclude if the relation is positive or negative; however, we can state that there is a strong relationship between the two.

The organisation concept, like the customer concept, also shows high correlation. With cooperation there is a correlation of .82. It seems that the organisational set-up of the gallery is somehow related to cooperation. We could suggest that galleries can only successfully engage in cooperation if they deploy the internal processes and structures that facilitate it. Furthermore, organisation is highly correlated to coordination with .73. This correlation underlines the fact that coordination and clear roles support the functioning of an organisation and underpin it. Considering that both organisation and customer are highly correlated with others, it is not surprising that the two are highly correlated with each other. The organisation concept and customer concept show correlation of .90. Again, at this stage it would be too early to derive definite conclusions from this. However, it is important to note this strong correlation.

We also observe two concepts that show the least correlation with others: the growth concept and the competence concept are only marginally correlated to other dimensions. Only competence shows a high correlation with communication (.71) and value proposition (.51), while the others remain below .4. It will be interesting to see the further development of these two concepts.

Overall, with the exception of the growth and, to a lesser degree, competence concepts, it appears that all aspects of Bieger’s model are reasonably highly correlated. This means that galleries that have established a professional management with respect to one dimension are generally more professionally managed in others as well. It will be relevant to keep this in mind for the interpretation that follows.

Table 24: Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Customer</th>
<th>Communication</th>
<th>Revenue</th>
<th>Growth</th>
<th>Competence</th>
<th>Organisation</th>
<th>Cooperation</th>
<th>Coordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1,0000</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
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<tr>
<td>Communication</td>
<td>0,7108</td>
<td>0,6409</td>
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<td></td>
<td></td>
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<tr>
<td>Revenue</td>
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<tr>
<td>Growth</td>
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<tr>
<td>Organisation</td>
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<td>Cooperation</td>
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<td>Coordination</td>
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<td>0,1541</td>
<td>0,7320</td>
<td>0,6782</td>
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</tr>
</tbody>
</table>
Table 25 presents a series of estimates drawn from the empirical model of the equation above. Each model estimates the “effect” of Bieger’s dimensions on profits. In order to control for some external factors, such as foundation year, number of employees, etc., we include several covariates in the sample (in the table indicated by roman numerals I-VI). It will be interesting to see the changes in the coefficients once we include covariates in the regression. We will do so very steadily, increasing the number of covariates along the regression.

Model I shows the effect of Bieger’s dimensions not controlling for any covariates. We first note a high $R^2$ or .29. This means that Bieger’s dimensions alone explain a full 29% of the variation in profits across art galleries. This result supports a tight regression fit and thereby lends reliability to the results. It shows that Bieger’s dimensions cover a certain percentage of art galleries’ success and highlight the dependence of economic performance on management activities. In the following tables $R^2$ will dramatically increase to .61 in our final table demonstrating that other aspects such as location or number of employees also matter in economic success.

In Model I we can already see that many estimates are only marginally statistically significant or not at all, although some of them are economically large. This results from the fact that we have a high multi-collinearity which adversely affects the precision of the estimates. As we have pointed out above, however, this will not affect the validity of our results. Note that the only two dimensions that are both statistically significant and economically large are organisational concept and communication concept. A gallery that scores 1 standard deviation higher on our measure of Bieger’s organisation concept has €80,789 more profit. In contrast, a gallery that scores 1 SD higher on our measure of Bieger’s communication concept is estimated to make €42,302 less profit. Given an average revenue of €470,900 a standard deviation difference in either of these concepts can make the difference between profitability and bankruptcy. In what follows we will demonstrate that this conclusion is unaffected by other observable factors which are plausibly also related to economic success.

Model II includes the foundation year as control variable. As we have seen the average foundation year for art galleries is 1998 with only a small percentage of galleries founded before 1980 and more than 10% in the past five years. It is important to control for the foundation year, since researchers claim that the length of existence of a gallery is positively correlated with its profit (Fesel, 2007).

When the foundation year is included we find that $R^2$ increases only marginally to .33. This shows that the foundation year does not help in limiting the variance in our sample. Interestingly, if we look at the coefficient for the foundation year we find that our results support the claim that the age of the gallery is correlated to the economic performance. Although the impact of the foundation year is in economic terms relatively small (€-3,242), it is statistically significant at the 10% level.
The coefficients in the sample do not differ extensively when the foundation year is included. Hence, our conclusions drawn above with respect to the importance of Bieger’s dimensions stand.

Model III includes the type of art sold as an additional covariate. As indicated, we classified the Fine Art category into five sectors. These were Old Masters (Giotto – Constable), 19th Century Art (excluding Modern Art), Modern Art (Impressionist – beginning of 2nd World War), Post-War Art (artists born between 1920 and 1944) and Contemporary Art (artists born after 1945).\(^\text{10}\) It is relevant to control for the type of art because margins and the business model of the gallery may differ by type. For example, the customer group for Old Masters to Post-War Art is rather small compared to Modern Art. Also, there are fewer art fairs where Old Masters can exhibit, in contrast to art fairs for Modern Art. Furthermore, a gallery that deals with 19th Century Art might earn much higher profit margins due to scarce resources and very specific demand.

When the type of art sold is included we find that the \(R^2\) increases to .55. This means that Bieger’s dimensions together with all the covariates explain 55% of the variation in profits. This rapid increase in \(R^2\) is also demonstrated by the fact that all art types enter the sheet as economically and some as statistically significant. The data reveals that, compared to galleries that sell Contemporary Art, galleries that deal with Old Masters earn €527,577 less profit, while galleries that sell 19th Century Art earn €308,802 more. Galleries that deal in Post-War Art also appear to be more profitable. They generate €181,207 more profit than those that deal in Contemporary Art. In contrast, galleries that sell Modern Art lose €10,198 per year. Our data summary in the second chapter supports this analysis. We find that the most dynamic sector in 2008 was Post-War Art, which attracted the highest bids (measured with auction sales turnover for the global Fine Art market in 2008). Similarly, we find that the Post-War Art sector is highly lucrative for art galleries that operate in it. Interestingly, the highest sales turnover and the most transactions are in the Modern Art sector (45% of the global auction sales turnover according to Artprice.com, 2009). We could conclude that this sector is highly competitive and mostly dominated by the auction market while galleries in this sector generate losses. However, although the coefficients for Old Masters and Post-War are statistically significant (at the 10% and 1% level respectively), we must consider that only a small fraction of the interviewed galleries actually deal in Old Masters, 19th Century Art, Post-War Art or Modern Art. We should therefore be cautious about overinterpreting the results.

The coefficients on Bieger’s dimensions change only marginally, with the cooperation and growth concept now having a small negative connotation. Although these coefficients change sign, they remain statistically insignificant and economically rather small. This does not apply, of course, for the communication and organisation concept. Both continue being statistically

\(^{10}\) Model III - VI include only 4 of the 5 categorical variables for type of art sold, as including a constant would otherwise result in perfect multi-collinearity. The interpretation of the included categories is thus relative to the excluded one, which is “Contemporary Art”. 
significant (at the 5% level) and economically significant (€-42,997 and €66,400 for communication and organisation respectively).

Model IV introduces the gallery’s subsidiary, as well as location and space (measured in m²) as covariates in addition to the above. In an industry where 13% own a subsidiary, controlling for branches seems advisable. This very low rate suggests that owning a subsidiary is either not profitable, overstrains galleries’ capabilities or only applies to very large galleries that can actually afford it. Furthermore, we control for location since we propose that a gallery’s profit might be influenced by its location. In the classification section, we offered gallerists a choice of major city/central, major city/decentral, minor city/central, minor city/decentral. We suggested that a gallery in the major city centre has much higher costs than a gallery in a decentral location in a minor city. Similarly, a gallery can make higher profits in a central location in a bigger city because it is in the spotlight for customers. Finally, we control for the gallery size on the same basis as we did for gallery location. We expect either higher costs or higher profit (through increased room to show art and larger more expensive artworks) for a larger gallery which will affect profit, positively or negatively.

The R² increases only marginally to .59.

The point estimates imply that a gallery located in a decentral spot in a major city makes €28,607 less profit than one located in a major city in a central location. Interestingly, galleries in minor cities are estimated to make higher profits than galleries in major cities in a central location, although that difference is not statistically significant at any conventional confidence level. This finally refutes the claim that galleries can only work profitably in major cities. Moving from a minor city to gallery hubs, such as Berlin or Cologne, does not seem to be the perfect solution. Furthermore, the point estimates for the subsidiary show remarkable results. Its coefficient is significant both economically (€55,079) and statistically (5% level). However, we should guard against giving a causal interpretation. The large coefficient could be due either to a true causal effect of opening a new location on profits or to reverse causality. In other words, galleries that already earn high profits can afford to open subsidiaries. Furthermore, the size of a gallery does not seem to have an impact on profit (holding all else equal).

As we can see, after these control variables are introduced, coefficients on Bieger’s dimensions vary only slightly. Only the coefficient on growth concept is now statistically significant at the 10% level, negative and economically meaningful. It will be interesting to see its further development.

Model V includes employees as new covariates. It is common knowledge that profits can be influenced by the number of employees – both positively and negatively. While more employees

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11 Again, we include only 3 of the 4 categorical variables for the location of the gallery, as including a constant would otherwise result in perfect multi-collinearity. The interpretation of the included categories is thus relative to the excluded one, which is “major city/central”.

can leverage sales and profits, their salary can also have a negative impact since it enters the income statement as costs.

At first, we can observe that $R^2$ rose to .6, only a tiny improvement on what we had seen before. Above and beyond what is captured by Bieger’s dimensions and all other covariates, employees do not appear to contribute to profits significantly, economically and statistically. Interestingly, the number of part-time employees has a negative impact on profits ($€-10,846$), while the number of full-time employees shows a positive sign ($€8,568$). Like the belief that minor-city galleries can’t be profitable, our results disprove the belief underlying one widespread industry practice. It seems to be common in the industry to employ interns or freelance employees on a large scale to increase flexibility and lower costs. It seems, however, that working with full-time employees has a very positive impact on profits. Again, we must be careful in interpreting these results. Our results do not imply that part-time employees are not necessary to generate high profit but part-time employees do not seem to be an independent contributor to success. In other words, simply hiring one more part-time employee does not leverage profits. This could be due to an absence of or insufficient qualifications, low motivation or a lack of structure within the company that allows part-time employees to progress beyond their qualifications. This is a relevant point that needs to be further considered in the following part.

When it comes to Bieger’s dimensions we find that the point estimates of all dimensions change slightly. While some coefficients change their signs, six of the nine dimensions remain statistically insignificant and economically rather small. As we have experienced in the previous tables organisational concept, communication concept and growth concept remain statistically and economically significant. Hence, our conclusion from above regarding the effect of Bieger’s dimensions on profits still hold true.

Finally, Model VI includes the remaining control factors. These are the participation at art fairs and number of yearly exhibitions. We control for the participation at art fairs because art fairs represent one of the top three cost factors and also generate 10-20% of yearly revenue. We also control for the number of exhibitions per year since we propose that a higher number of exhibitions might increase revenue.

Again, we only find a small increase in $R^2$ to .61. Participation at art fairs as well as the number of exhibitions are both positively correlated with profits, although only the latter is statistically significant (10% level). At the same time, we find that the location of the gallery (major city, decentral) also becomes marginally statistically significant, although negative. The positive impact of the number of art fairs could be due to a multitude of factors, the most likely of which is the profit associated with participating at art fairs. It appears that despite high participation fees galleries still make profits. As we have found out above, art fairs have become a value income stream for art galleries. The number of exhibitions follows a similar, yet less surprising, logic. Since rent is considered a main cost, galleries that use their showrooms more efficiently (for example, renting it out for photo shoots, private dinners, talks, etc.) have higher income by
steady costs. It must be said, however, that both have economically only a small impact (€3,639 and €5,280 for the yearly number of art fairs and exhibitions respectively).

Considering Bieger’s dimensions we find that again no relevant changes have taken place. All concepts except organisational, communication and growth are statistically insignificant. Most of the statistically insignificant coefficients (apart from coordination) are also economically small.

Overall, we see that R² rose from .29 to .61. This means that Bieger’s dimensions together with all covariates explain 61% of the variation in profits. This result shows our tight regression fit and lends reliability to our results. Furthermore, it highlights the dependence of economic performance on management activities. The gradual improvement of R² shows that aspects such as location or number of employees are relevant in predicting economic success.

Moreover, the data also shows that many estimates are only marginally statistically significant or are not statistically significant at all, although some of them are economically large. In fact, only 8 out of 23 coefficients are statistically significant. This is because the high multi-collinearity adversely affects the precision of the estimates. As we have pointed out above this will not, however, affect the validity of our results. They do remain unbiased and consistent.

Concerning the control variables, some should be highlighted. From a statistical point of view, the type of art sold, the subsidiaries, the location and the number of exhibitions are all significant: it seems that engaging in the secondary market has a positive impact on profits. In particular dealing with Modern Art seems to leverage profits immensely (€171,527 on a 1% level). Old Masters, by contrast, show a negative yet large coefficient (€-512,871 on a 10% level). It seems that dealers must consider what period they want to deal in. Moreover, the number of galleries (subsidiaries) is statistically and economically significant (€50,347 on a 5% level). It appears that galleries that own subsidiaries generate higher profits, which from a business point of view is interesting. However, the comparable small coefficient raises the question of whether subsidiaries are really economically useful, or are negligible. Additionally, the location of the gallery is statistically and economically significant (€-31,024 on a 10% level). It seems that the decentral locations in major cities are not the best option for leveraging profits. Finally, the number of exhibitions is marginally statistically and economically significant (€5,280 on a 10% level). Of course, this makes sense, since a more efficient use of showrooms will positively impact profits.

As we have seen, from an economic viewpoint most of these coefficients are unusually large, in particular those on the type of art sold and the number of galleries. However, they are also estimated very imprecisely. Therefore, as mentioned above, we must take care not to overinterpret the results.

Regarding Bieger’s dimensions, we find a very clear picture of the data at hand. In fact, the results from Model VI confirm our conclusions from Model I. The communication (€-31,746 on a 10% level), the growth (€-11,240 on a 5% level) and the organisation concepts (€59,383 on a 5% level) are statistically and economically significant. Taking the point estimates at face value
Quantitative Analysis

one SD increase in organisational concept is estimated to lead to approx. €60,000 more in profits. An SD increase in growth concept or communication concept, however, appears to decrease profits by €11,000 and €32,000 respectively (ceteris paribus). Considering an average revenue of €470,900 a standard deviation difference in either of these concepts can have an heavy impact on the profitability of the gallery.

Interestingly, all two of the three concepts stood out when we conducted the multi-collinearity analysis. While the organisation concept showed high collinearity with almost all concepts, the growth concept is the complete reverse with almost no correlation to any other concept. Communication showed a similar picture, though not as strong. For the following part this clearly puts the focus of our discussion on these three dimensions. It will be the task of the discussion to further elaborate on the results and relate them to our hypothesis from the previous section.
Table 25: Regression Results for Bieger's Business Model Dimensions

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
<th>Model IV</th>
<th>Model V</th>
<th>Model VI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>5509.68</td>
<td>2714.77</td>
<td>7391.37</td>
<td>5052.25</td>
<td>2735.26</td>
<td>-3455.82</td>
</tr>
<tr>
<td>Customer</td>
<td>-8250.65</td>
<td>-9946.36</td>
<td>-15939.96</td>
<td>-9934.32</td>
<td>-7539.41</td>
<td>-1177.13</td>
</tr>
<tr>
<td>Communica.</td>
<td>-42302.01***</td>
<td>-45598.63***</td>
<td>-42997.98**</td>
<td>-39022.35**</td>
<td>-34435.75**</td>
<td>-31746.07*</td>
</tr>
<tr>
<td>Revenue</td>
<td>13213.31</td>
<td>12520.16</td>
<td>984.69</td>
<td>43.16</td>
<td>-3441.11</td>
<td>-6389.82</td>
</tr>
<tr>
<td>Growth</td>
<td>-4348.97</td>
<td>259.76</td>
<td>-7439.29</td>
<td>-11038.44*</td>
<td>-10856.83*</td>
<td>-11240.57**</td>
</tr>
<tr>
<td>Competence</td>
<td>-6889.73</td>
<td>-9917.42</td>
<td>1808.52</td>
<td>-10204.78</td>
<td>-8682.77</td>
<td>-7336.59</td>
</tr>
<tr>
<td>Organisation</td>
<td>80789.38**</td>
<td>71467.35**</td>
<td>66400.47**</td>
<td>64986.73***</td>
<td>62628.92**</td>
<td>59383.32**</td>
</tr>
<tr>
<td>Cooperation</td>
<td>-508.38</td>
<td>2205.03</td>
<td>-7488.91</td>
<td>-4372.17</td>
<td>1864.96</td>
<td>3119.05</td>
</tr>
<tr>
<td>Coordination</td>
<td>528.32</td>
<td>8669.88</td>
<td>16746.51</td>
<td>14452.82</td>
<td>13326.01</td>
<td>12888.19</td>
</tr>
<tr>
<td>Foundation year</td>
<td>-3242.69*</td>
<td>-667.01</td>
<td>916.34</td>
<td>1205.88</td>
<td>1283.45</td>
<td></td>
</tr>
<tr>
<td>Type of art sold (Old Masters)</td>
<td>-527577.4*</td>
<td>-498184.5*</td>
<td>-513696.6*</td>
<td>-512871.1*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of art sold (19th Century Art)</td>
<td>308822.2</td>
<td>327680.7</td>
<td>349315.4</td>
<td>348236.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of art sold (Modern Art)</td>
<td>-10198</td>
<td>-27483.67</td>
<td>-33230.27</td>
<td>-35174.23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of art sold (Post War)</td>
<td>181207.1***</td>
<td>174352.2***</td>
<td>165707.9***</td>
<td>171527.1***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of galleries</td>
<td>53942.75**</td>
<td>55079.46**</td>
<td>50347.99**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location of gallery (major city, de-central)</td>
<td>-28607.57</td>
<td>-29063.15</td>
<td>-31024.92*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location of gallery (minor city, central)</td>
<td>15264.12</td>
<td>9421.22</td>
<td>4954.03</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location of gallery (minor city, de-central)</td>
<td>67907.21</td>
<td>76338.18</td>
<td>79083.39</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size of gallery</td>
<td>116.77</td>
<td>73.26</td>
<td>94.58</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees (full time)</td>
<td>8568.15</td>
<td>5534.84</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees (part time + freelance)</td>
<td>-10846.72</td>
<td>-12907.02</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of participation at art fairs</td>
<td>3639.68</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of exhibitions per year</td>
<td>5280.82*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* indicates significance at the 1 %-level (***) , 5 %-level (**) and 10 %-level (*)

I = No control variables
II = Foundation year
III = Type of art sold
IV = Number of galleries, location of gallery, size of gallery
V = Number of employees
VI = Number of participation at art fairs, number of exhibitions per year

Entries are coefficient estimates from the empirical model discussed in the text. Standard errors, given parathesis, are heteroskedasticity robust.
3.4 Discussion

In this section we make sense of the wealth of information contained in tables 10-16 focusing on the effects of Bieger’s dimensions on profits. The key question, in reference to our research question, is: “What are the existing and potential success factors?

H2: An augmented value proposition is positively related to economic performance.

We hypothesised that the value proposition has a positive impact on profits. Our empirical estimates do not support this conclusion. Not only is the coefficient on value proposition not statistically significant, it also carries the “wrong” sign: that is, it is negative. In an economic sense the value proposition is relatively small with only one more SD leading to €3,455 less profit. This implies only a marginal impact on profits considering the average income of galleries. Interestingly, the value proposition is strongly correlated with the communication concept (.71). We could argue that a large proportion of the value proposition is captured by the communication concept. This might explain its economic and statistical insignificance.

Yet technically, one cannot draw the opposite conclusion from this, i.e. that the value proposition is negatively related to profits. Econometrically and in an economic sense the value proposition does not have a strong independent impact on profits, holding all other dimensions of Bieger’s concept equal.

Thus, our data are inconclusive. That is they do not support H2 but neither can they reject it.

H3: Targeting the right customers is positively related to economic performance.

We hypothesised that the customer concept has a positive impact on profits. Our results do not support this conclusion. Economically and statistically, the coefficient on customer concept is insignificant, even slightly negative.

A possible explanation for this is that while most other concepts change their sign when we add new covariates, it is the customer concept that stays negative and remains on a fairly similar level throughout. Possibly the impact of the covariate is captured to a large part by other concepts. In fact, the customer concept shows strong correlation with various other concepts, including with organisation of .9 or communication of .64. They might evacuate most of the power of the customer concept.

This does not mean that the reverse holds true, i.e. that the customer concept has a negative impact on economic performance.

Thus, our data are inconclusive. That is we cannot support or reject H3 at any conventional confidence level.
H4: Anchoring the benefit in the relevant market via the right channels is positively correlated to economic performance

We hypothesised that the communication concept has a positive impact on profits. Our results do not support this conclusion. Economically, communication carries a negative sign and is relatively large with over €30,000. In a real world sense, this means that galleries that score one more SD make approximately €30,000 less profit. Statistically, at the 5% significance level we can even reject H4. That is it appears that the communication concept lowers profits (ceteris paribus).

One possible explanation is that all galleries engage in the same communication concept so their communication approaches do not differ much. A closer look at the actual results reveals that galleries score a median of 3 to 5 throughout all questions asked concerning the communication concept (apart from communication_4). Interestingly, when we compare results to previous studies on communication concepts of galleries we find similar results. Resch (2008) describes in his findings that the highest independent contributions to economic performance originate in individualised marketing messages, targeting the right customer, employing CRM technology and tracking customer status. In contrast, activities widely practised by galleries (communication_1) such as monthly newsletters to all clients and mailings to all potential customers have only a negative impact on profits. This might indicate that extra revenues generated by these measures do not outweigh their cost. As an example, a gallery in our sample group has around 2,000-3,000 addresses where invitations cards will be sent. For every exhibition printing and mailing costs will add up to €1,200 (with €1,000 for the mailing and €200 for the printing). With approximately eight exhibitions per year, total costs of this newsletter will be around €10,000 but with potentially little or no positive return.

In contrast to the previous hypothesis we can form a firm statement concerning H4 due to its economic and statistical significance:

Hence, we can rule out a positive effect on profits of H4 at conventional confidence levels (ceteris paribus).

H5: An elaborated and diversified revenue concept is positively correlated to economic performance

We hypothesised that the revenue concept has a positive impact on profits. Our results do not support this conclusion. Economically and statistically, the coefficient on revenue concept is insignificant, even negative.

One possible explanation for this is that galleries have not identified a clear revenue concept for themselves. It seems that there are no excellent and groundbreaking concepts in the market. Our data supports this claim. We find support for revenue_1: 65% reply that the primary market is only one revenue stream. This implies alternative revenue sources, but in our results we cannot
find them. While an encouraging 40% reply that the secondary market plays a major role in their revenue concept, only 18% of the galleries are actually active in it. According to our summary statistics 98% engage in dealing Contemporary Art, while only a fraction (18%) deals other type of arts (for which the platform is usually the secondary market). Equally, revenue_3 (revenue through extra services) and revenue_4 (revenue through agents) score weak support.

What we can be sure of, however, is that the type of art a gallery sells has an impact on its profits. When covariates (type of art) are introduced the revenue concept’s coefficient decreases almost to zero while the covariates enter with statistically and economically high values. These covariates are large in size and statistically significant. A gallery that sells Modern Art, for example, generates €174,352 higher profits. Even though we must be cautious not to overinterpret the strength of these covariates and should not take them at face value (because only a small fraction of the galleries actually deals in Old Masters, 19th Century Art, Post-War Art or Modern Art) we can derive findings from it. To sum up, we can state that galleries have not managed to define a useful revenue concept that includes several revenue streams and places a focus on areas that actually generate profits.

Again, like H2 and H3, the negative coefficient does not mean that the reverse holds true, i.e. that the revenue concept has a negative impact on economic performance.

Thus, our data are inconclusive. That is, we cannot support or reject H5 at any conventional confidence level.

H6: A clearly laid out growth concept is positively correlated to economic performance.

We hypothesised that the growth concept has a positive impact on profits. Our data cannot support this conclusion. In Table 16 the coefficient on growth concept is negative, economically meaningful and statistically significant at the 5% level. The P-value of .05 means that the probability of obtaining a point estimate of €11,000 while the true effect is 0 is only 4.5%. So there is some room for error here but it is small. Keeping in mind that there is also attenuation bias, the true effect could be even larger.

A possible explanation for the growth’s negative loading is that all galleries follow a similar growth concept (or none). Interestingly, when we control for location and subsidiaries the growth concept suddenly becomes negative. It remains stable when future covariates are introduced. Moreover, when we analysed multi-collinearity we found that growth is the one concept that shows only very little correlation with other concepts. These facts imply that a fruitful growth concept is currently not applied by many and hence has either a slightly negative impact on profits, or none at all. Like the communication concept, though, this does not mean that galleries do not need a growth concept. In fact, it appears that galleries do need a growth concept, but not one that ultimately leads to opening a new subsidiary somewhere. In contrast to the previous
hypothesis and on the strength of its economic and statistical significance we can form a firm statement concerning H6:

Thus, we can rule out a positive effect on profits of H6 at conventional confidence levels (ceteris paribus).

H7: The perfect fit between competencies and products offered is positively correlated to economic performance.

We hypothesised that the competence concept has a positive impact on profits. Our results do not support this conclusion. Economically and statistically, the coefficient on the competence configuration concept is insignificant, even slightly negative.

One possible explanation is that all galleries engage in the same competence configuration, so their approaches do not differ much. A closer look at the actual results reveals that galleries score a median of 5 for the last two questions concerning their competence configuration. This high score reveals our initial suspicion: all galleries consider their ability to select the best artists (competence_2) and social competences (competence_3) to be equally strong. 99% rank both as either 4 or a 5, the highest scores available. There is more variety in the judgement of their management capabilities (competence_1). Here, opinion is divided: one part considers their management capabilities to be weak, the other strong. In the end the median is 3. This result shows that respondents clearly should not overrate their capabilities and that there is both necessity and demand for management improvements.

Interestingly, as we found with the growth concept, the competence configuration shows only very limited correlation with other concepts, with the exception of the communication concept with which it holds a strong correlation of .71.

Again, competence’s negative sign does not mean that the competence configuration has a negative impact on economic performance.

Thus, our data are inconclusive. That is, we cannot support or reject H7 at any conventional confidence level.

H8: A clear determination of one’s own position in the value chain is positively correlated to economic performance.

We hypothesised that the organisation concept has a positive impact on profits. Our results lend support to this hypothesis. Economically and statistically the coefficient on organisation is significant and positive. As we hypothesised correctly, the organisation concept plays a major role in the success of a gallery. In fact, one SD more leads to approximately €60,000 more profit – a very high score considering the average profit to be only around €21,660. The organisation concept can therefore make the difference between loss or profit.
A possible explanation for this is that the organisation concept is highly correlated with most of Bieger’s other concepts. In particular, the organisation concept is highly correlated with the customer concept (.90), revenue concept (.72), coordination concept (.73) and the cooperation concept (.82). Interestingly, all of these hold either very small negative coefficients or relatively small positive coefficients. Hence, we could argue that the factors commonly believed to have an impact through the customer concept are subsumed in the organisation concept. Another interesting fact is that it is the organisation concept that holds a very stable coefficient, even when more and more control variables are added. It seems that the organisation concept is a relevant and impactful tool to work with when changes in galleries need to be addressed.

Thus, our data supports H8 in that the organisation concept has a positive and significant impact on profits.

**H9: Selection of the right business partners is positively correlated to economic performance**

We hypothesised that the cooperation concept is positively related to profits. Our results do not support this conclusion. Economically and statistically, the coefficient on the cooperation concept is insignificant, although slightly positive.

A possible explanation for this is that most of the positive impact of cooperation is captured by the organisation concept. As explained above, there is a very high correlation (.82) between the cooperation and organisation concepts. Interestingly, the cooperation concept remained negative up to the point where we controlled for employees. It seems that the number of employees has an impact on cooperation. This could be explained by the fact that cooperation works successfully only when it is professionally managed. For galleries to engage in cooperation without the internal resources will not lead to success, and in fact might have a negative impact on profits.

Again, this does not mean that the reverse holds true, i.e. that the cooperation concept has a negative impact on economic performance. Therefore, we cannot reject the null hypothesis of no impact of cooperation concept on profit.

Thus, our data is inconclusive. At face value it support H5, but it is not statistically significant.

**H10: Designing the right coordination concept is positively related to economic performance**

We hypothesised that the coordination concept has a positive impact on profits. Our results do not support this conclusion. Although at face value the coefficient is relatively large, it is statistically not significant.

Interestingly, we find that the coefficient of coordination is relatively large. When we control for no variables we find the coefficient to be almost zero. Obviously, the coefficient for coordination
increases when we introduce various covariates since complexity increases. In particular, the coefficient doubles when we control for the type of art sold; not a surprising result, since dealing in the secondary market is heavily involved with contracts and legal issues. It is almost the prerequisite to engaging in any deal within this market. For example, in order to offer an artwork in the secondary market, the dealer is required to provide an official letter that proves its mandate. The other side must then provide the dealer with a proof of funds (POF) that states the financial ability to purchase the work. Before the viewing takes place a letter of intent (LOI) must be issued to demonstrate the actual will to potentially purchase the work. All these legal agreements are part of the coordination concept.

Again, although the coefficient is insignificant this does not mean that the reverse holds true, i.e. that the coordination concept has a negative impact on economic performance.

Thus, our data is inconclusive. Although the coefficient is positive and relatively high, it is statistically not significant.

H1: An elaborated business model is positively related to economic performance

We hypothesised that an elaborated business model is positively related to economic performance. Given the results stated above and with six out of nine negative coefficients, it seems that an elaborated business model is NOT positively related to performance and hence we cannot support H1.

However, we need to approach this topic from a different angle. A more in-depth look at the data reveals that only three concepts are statistically significant. While the growth concept holds a negative sign, the organisation concept is positive and economically very large. Both are statistically significant at the 5% level. The communication concept holds a negative sign and is marginally statistically significant at the 10% level.

Interestingly, the two negative coefficients show a very weak correlation (.18). This implies that they have an independent and strong negative impact on performance. As explained above we believe that the negative impact of communication results from the heavy cost of intensive communications efforts, as well as its power through correlation with others. With the growth concept we believe that the negative coefficient is derived from the fact that a growth concept has not widely been applied or is applied falsely.

The only positive and statistically significant coefficient is the organisation concept. It holds the highest coefficient, almost twice as high as the strongest negative coefficient. Moreover, this concept shows heavy correlation within various other concepts. We could therefore conclude that in a result where most concepts are only marginally negative or positive (i.e. not more than €10,000) it seems that the organisation concept captures most of the value of other concepts. In particular, the organisation concept, in contrast to the communication or growth concepts, is highly correlated with the customer concept (.90), revenue concept (.72), coordination concept...
(0.73) and the cooperation concept (0.82). All of these show only weak correlation with the communication concept. Hence, we could argue that those coefficients that currently hold small negative signs (customer, revenue concept and cooperation) could become positive when we have much stronger engagement in the organisational concept. This changes the overall number of negative coefficients to only three out of nine. Now it seems that an elaborated business model is positively related to performance.

This claim is supported by the results of an F-Test we conducted under the null hypothesis that all coefficients on Bieger’s model are equal to zero. The resulting F-stat is 12.79 (and distributed according to an F-statistic with 9 and 252 degrees of freedom). Thus, we can reject the hypothesis that an elaborate management concept does NOT have an impact on profits. From this we conclude that at least one of Bieger’s dimensions has a positive impact.

Thus, our data is inconclusive. Although we find six out of nine coefficients are negative, we find support for our hypothesis. Certainly, we cannot reject it.

### 3.4.1 Theoretical Implications

The dissertation at hand first presented an overview of the art market and its most relevant players. It went on to identify success factors in art galleries’ current business models. Although the focus of this dissertation lay on the evaluation of practical recommendation, some relevant theoretical insights could be generated. Predominantly, these refer to the classification of art gallery business models.

#### 3.4.1.1 Classification of Art Galleries

Classification deals with the grouping of characteristics into classes on the basis of similarity (Bailey, 1994). It is helpful to classify complex models into categories in order to formulate a theory or help to organise and structure problems: “Classifications are part-way between a simple concept and a theory. They help to organise abstract, complex concepts” (Neumann, 2003, p. 46). An understanding of business models can therefore be enhanced through the development of a general classification scheme (Mc Kelvey, 1982).

Several researchers have tried to come up with schemes to classify business models based on their components, mostly in the e-commerce industry (Applegate, 2001; Linder & Cantrell, 2000; Osterwalder et al., 2005; Timmers, 1998; Wirtz, Schilke, & Ullrich, 2010). Each provides a draft for a classification scheme of business models for future research to produce taxonomies. However, Lambert (2006) highlights that existing classification schemes show some limitations. According to Lambert (2006) and Bailey (1984) classification schemes should contain the following characteristics:

1.) It should work with a reasonable number of variables

2.) It should allow for comparison and identification of similarities and differences by reducing the complexity
3.) It should allow the observer to formulate hypotheses concerning relationships between categories that can be observed quantitatively.

When we compare these characteristics to the business model concept we used, we can see several points of similarity. Bieger’s model divides the business model of a gallery into dimensions. These reduce complexity, which in turn allows us to compare and identify similarities and differences (in the form of success factors) between different galleries. Furthermore, as we have seen in the empirical part, Bieger’s business model concept can be used as the basis for a quantitative observation. Hence, we can apply Bieger’s model to map current business model practices in the art industry and thus classify art galleries.

Applying Bieger’s model to classify the business models of galleries can produce interesting findings. While many galleries follow a similar business model to a greater or lesser extent (and with varying degrees of success) there are some galleries that really stand out from their competitors by virtue of their organisational concept. Since the organisational concept is so highly correlated with various other concepts (with the customer concept (.90), revenue concept (.72), coordination concept (.73) and the cooperation concept (.82)) the entire business model is different. Hence, we can identify two current business models:

1. Primary Market Galleries
   In our sample the majority of art galleries sell only Contemporary Art and are therefore active only in the primary market. This also explains why most variables are not statistically significant. Not surprisingly, each gallery’s business model is very similar (as we have described in 3.2.4.). Their value proposition is to sell Contemporary Art to art lovers and art connoisseurs. Sometimes they sell to corporate collectors, but very rarely. Their communication is mostly via traditional channels, and their revenue generated solely through selling Contemporary Art. They do not have a specific growth strategy and define their core competency as the assortment of goods and social competence. Their organisation concept is very simple and indistinguishable from their competitors since it reflects their sole focus on Contemporary Art. Cooperation partners are mostly artists with whom they do not hold contracts.

2. Primary + Secondary Market Galleries (Hybrid)
   There is a group of galleries in our sample that sells both Contemporary Art and non-Contemporary Art (Old Masters, 19th Century Art, Modern Art or Post-War Art). They are active in the primary and secondary markets. Their value proposition is to sell Contemporary and non-Contemporary Art to art lovers, corporate collectors and dealer-collectors. Their communication concept is similar to those of primary market galleries, but their revenue concept is based on two pillars, i.e. the primary and the secondary.

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12 It must be said that there exist galleries (16% in our sample) that do not sell Contemporary Art but artworks from other categories, such as Post-War Art. Since there are so few of them (in Austria for example only one gallery) we have not explicitly stated them here.
market. Hence their revenue is generally higher. They also do not follow a specific growth concept and they have the same competencies as primary market galleries. But their organisation concept is very different to that of primary market galleries. Because of the enlarged value chain that accompanies activity in the secondary market, their organisation concept is correspondingly more demanding. They engage in more cooperation with commercial art mediators, such as other art galleries or auction houses, and they make those cooperations more formal and legally binding with the use of contracts with their secondary market partners.

Table 26: Classification of Business Models for Art Galleries

<table>
<thead>
<tr>
<th>Business model components</th>
<th>Primary Market Galleries</th>
<th>Primary + Secondary Market Galleries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which benefits do we transfer? What job has to be done? Value proposition</td>
<td>Sale of Contemporary Art (solely)</td>
<td>Sale of Contemporary Art AND other sector (for example Old Masters)</td>
</tr>
</tbody>
</table>
| Which customers do we target? Customer | 1. Art lover  
2. Art connoisseur  
3. Corporate collector | 1. Art lover  
2. Corporate collector  
3. Dealer-collector |
| How is this benefit communicatively anchored in the relevant market? Communication concept | Traditional channels (post, mailing, ads) | Traditional channels (post, mailing, ads) |
| How are the revenues generated? Revenue concept | Selling contemporary artworks | Selling contemporary artworks; Selling/dealing with non-contemporary artworks |
| Which growth concept is pursued? Growth concept | No growth concept | No growth concept |
| Which core competencies are necessary? Competence configuration | Competence in art history | Competence in art history |
| What is the range of one's own company? Organisational form | Heavy focus on primary market, no competence in secondary market; Gallery with gallery director + assistants | Dual focus on primary market and secondary market; Gallery with gallery director + assistants |
| Which cooperation partners are selected? Cooperation concept | Cooperation partners are artists | Cooperation partners are artists and commercial art mediators |
| Which coordination model is used? Coordination concept | No contracts with artists and partners | No contracts in primary market, firm contracts and formal processes in secondary market |
A critical piece of information to come out of our study of working galleries was a clear link between the business model and profit: those galleries operating in the secondary market as well as in the primary not only generate higher revenue but also higher profits. This is in line with our results from the regression analysis.

The identification of the two business models shows that the Bieger business model can be applied as a classification scheme to identify business model characteristics and classify them. These results add to the general discussion on classification schemes, particularly to the development of taxonomies. Overall we can state that Bieger’s business model covers a vast majority of classic business activities in the art market. Employing a concept like this allows researchers to identify specific characteristics of galleries and combine these insights to see their implications (Wirtz et al., 2010).

3.4.1.2 Interdependencies of dimensions
The results from our regression analysis also highlight another interesting aspect in current business model literature. Gemünden & Schulz (2003) question the interdependencies of the business model dimensions and underline the importance of the configuration of a single dimension: “We formulate the following question to describe the interdependencies within the business model concept: which interdependencies exist and how do they impact the business model configuration?” (p. 170).

Our results show high interdependencies among the various business model dimensions. In fact, as we have seen above, a whole business model can be redefined when only one dimension is completely different.

In our case the organisational concept plays this role. It is the most prominent success factor, being statistically and economically significant. Its impact is, however, not limited to its own dimension but to various other concepts as well, as it is highly correlated with the customer concept (.90), the revenue concept (.72), the coordination concept (.73) and the cooperation concept (.82).

When correlations are very powerful between dimensions, changing one dimension will ultimately change most other dimensions. Eventually, as we have seen above, this could lead to an entirely new business model. In our case the organisational concept kick-starts change in most other concepts, thereby defining a new business model.

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13 Researchers here distinguish between typologies and taxonomies (although the terms are often used interchangeably) (Lambert, 2006). Typologies are the product of deductive research, generated through qualitative classifications. The target is to “form a solid foundation for both theorising and empirical research” (Bailey, 1994, p. 33). Taxonomies, in contrast, are the result of empirical work. First data is generated and then generalised. For examples, cases are observed and then in a second step similarities and differences in the observed variables identified (Bailey, 1994).
3.4.2 **Introduction to Practical Implications**

The regression analysis helped us to identify the concepts that have the least and most impact on the financial success of art galleries. We see that there are some concepts that are heavily dependent on and correlated with others, while there are also some independent triggers that capture a high proportion of the success of a gallery. The results from the regression analysis lead to three key managerial implications.

1. The first key managerial implication of our empirical section is the finding that most galleries work along very similar lines.

   Our data shows that we have only three statistically and economically significant concepts: communication, growth and organisation. The remaining concepts are heavily dependent on this three. Hence, we can argue that most galleries put their focus on equal concepts, which is also symbolised by low significance throughout. In order to increase profits we must completely shift the focus and remodel some concepts, with these three concepts at the forefront of our thinking.

   Hence, dramatic changes in the right concepts will eventually lead to positive changes in others.

2. The second key managerial implication of our empirical section is that we can actually identify the most important success factor. It is the organisation concept.

   The organisation concept has the highest coefficient overall and is intensively correlated to various other concepts. It seems that the organisation concept represents a key trigger to distinguish one gallery from another. Interestingly, when asked if they have developed an organisation concept that distinguishes them from others, gallerists are indifferent: 50% argue in favour of it, the rest against it. According to the regression those that have found a model that helps to differentiate themselves from others earn higher profit.

   Hence, galleries must use the organisation model as a starting point for any further improvement.

3. The third managerial implication is that galleries must completely change their communication and growth concept, rather than neglecting one of them.

   Our results show that communication and growth both have a negative coefficient and a negative impact on profits. This implies that galleries that wish to distinguish themselves from competitors should not waste their resources on communication and growth. However, this does not imply that gallery performance can be sub-standard, or that they should neglect one of the two dimensions. Technically speaking, the point estimates only document the status quo and should not be extracted too far. For instance, there are no galleries in the data that simply do not engage in communication with customers at all. It seems that galleries communicate via the same channels and hence their communication impact is diminished. Therefore, we cannot conclude that communication is completely
useless but at the current status quo spending more on communication does not improve profits. The same applies to the growth concept. Therefore, from the empirical results it appears that existing ways for implementing these concepts are not the way to go.

Hence, we must identify new ways of implementing these concepts which may very well lead to increased profits.  

Overall, we see there is demand for an improved business model for art galleries. Short term fixes for some concepts will not achieve lasting success. A revised business model of art galleries is called for that takes into account most concepts but places heavy emphasis on the organisational concept and communication model. It is the organisation that galleries should use as a starting point to revise their model.

3.5 Limitations and Quality of Research

Although our study produced interesting and meaningful findings, there are some limitations that need to be discussed. As we introduced in 2.1.3 we reduced the complexity of the success of a firm to several factors by using the business model concept. Of course, there is a possibility that we might have left out key components and that our simplified complexity cannot display all relevant measures to success. As in all success factor research, there can be doubts concerning the validity, generalisability, reliability and methodology – important points to recognise in this context are the possibilities of omitted variables bias, reverse causality, and endogeneity of the regressors of interest. Each one of them is known to econometricians.

The discussion will first explain how each of these potential problems relates to our analysis and what possible solutions exist, although coming up with new solutions is certainly beyond the scope of this paper. Yet, it is important to point out those limitations.

Concerning the validity we are aware of its natural limitations, including the retrospective nature of the data. We carefully focused, therefore, on time issues and interdependencies (particularly through the multi-collinearity analysis). We are aware that we based the design of our questionnaire on Bieger’s business model and an extensive search through academic literature. However, since literature on business models is moving fast, it could be argued that our concepts will need to be updated as new concepts and models become common practice.

As far as the generalisability of our results is concerned, we argue that our sample group consists of a wide range of art galleries. However, our sample size is still relatively small. Hence, many of our independent variables lack statistical significance. Furthermore, we used data from galleries located across three different countries. Since settings and conditions might vary across countries, there could be unobserved heterogeneity driving the results in our sample. We tried to limit it by introducing control variables in our regression that secure bias-free results.

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14 Note that the empirical results do not apply to business methods which are currently not implemented. Naturally, as there is no data we cannot extrapolate the results.
Regarding *reliability* it must be noted that in our questionnaires we only took a “snapshot” of the situation for the very short period of one year. It could be argued that some of the effects are more longitudinal in nature. The impact of communication, for example, could be more feasible after a longer period of time. Further, we have seen varying correlation among several concepts. In the long run, it might be that these relationships change. Therefore, a future long-run study will provide worthwhile insights.

Finally, we identified several *methodological* limitations.

Classical measurement error exists if $X = X_0 + \epsilon$ where $X$ is the observed variable, $X_0$ denotes its true values, and $\epsilon$ is a white noise error term. The measurement error of the classical form is known to bias the associated coefficient towards 0. As outlined before, no study can rule out this kind of bias. In fact, previous work in this field and a number of Monte Carlo simulations suggest that the attenuation bias is common.

Second, omitted variable bias (OVB) is said to be present when at least one of the regressors is correlated with the error term. In the presence of OVB the coefficient does not have a causal interpretation. The direction of the bias depends on the partial correlations between the regressors, the outcome, and the error term. If for instance the regressor of interest is orthogonal to all regressors, correlated positively with the LHS variable, and negatively with the error term, then the coefficient on that regressor will be biased downward. One possible solution is to apply an estimation using instrumental variables. A variable $Z$ is a valid instrument if $\text{corr}(X, Z) = 0$ and $\text{corr}(Z, \epsilon) = 0$, or in words $Z$ affects $X$ but does not affect the outcome except through $X$. If we apply such a variable $Z$, then the estimation can be done by 2SLS or GMM. However, this solution comes at a price. The tricky part is coming up with a credible $Z$. Most instruments in other studies will not suffice, as one can easily refute the exclusion restriction, i.e. the condition that $\text{corr}(Z, \epsilon) = 0$.

Third, there is the possibility of reverse causality. Reverse causality exists when the outcome also affects the regressor of interest, whereas the regression model assumes that the regressor affects the outcome but not vice versa. Econometrically this results in correlation between the regressor and the error term and thereby negates a causal interpretation of that coefficient estimate. Again, instrumental variable techniques can avoid this, but are hard to implement.

In general all of these problems make it hard to give the coefficients in our analysis a causal interpretation. While ME results in attenuation bias, the direction of the bias in all cases is unknown. However, in the absence of a theory for why there would be unobservable factors (i.e. factors not controlled for in the regressions) that affect profit and different CRM activities, the OLS estimates are still the “best guess” of the true causal effect.
4 Practical Implications

The previous chapters served as an *Introduction* to the research problem by laying out the conceptual basis, and the *Analysis* that dealt with the examination of the current business models of art galleries. It mapped the status quo of art galleries and discussed success factors. Referring to the research objectives we identified, the *Introduction* and the *Analysis* dealt with the first two objectives, i.e. Identification/Description and Explanation.

This chapter, the *Implication*, is based on the findings of the previous chapters. In the realm of applied research it now focuses on actually delivering a solution for a practical problem (Ulrich, 1981, 1984). Ulrich (1981), Bortz & Döring (2009), as well as Tomczak (1992) all highlight the importance of verifying the derived results from the *Analysis* by means of their practical application. We will therefore try to implement our findings from the *Analysis* into three case studies in order to test their impact. It will be the task of this chapter to evaluate a possible new business model for art galleries. The following research objectives and questions question corresponds to this chapter:

- Evaluate a possible new business model for art galleries: Implication
  - What could a new business model for art galleries look like?

We will base our exploration on a triangulation of research methods: the success factors we identified in the *Analysis*, three case studies and expert talks. The identified success factors indicate where the focus of the new business model should lie. In expert talks these factors will be further elaborated and finally implemented into three case studies. This research approach helps to incorporate the findings from the *Analysis* but also to introduce new ideas. For example, one of Bieger’s dimensions concerns the revenue concept. If findings from the *Analysis* stress the importance of the revenue model, new ideas might be introduced from the case studies or expert talks which widen the revenue model of an art gallery. This leads to a conceptualisation of a new business model for art galleries, one filled with innovative ideas to improve art galleries’ performance.

*Figure 39: Research Methods for the Implication Part*
The chapter is laid out as follows: at first the applied research methodology is conceptualised. Then a general discussion on management principles leads to the presentation of the goal triangle of art galleries. Thereafter the new business model for art galleries is introduced. Each dimension of the business model is addressed, with a focus on those that have the most critical impact on success.

4.1 Conceptualisation

To test the findings from the Analysis part, as well as design a new model for art galleries, we decided to apply a triangulation of research methods.

Firstly, as our main basis for the Implication we use the results generated in the Analysis. The success factors highlight the most relevant points and were identified in an online survey among 1,100 art galleries in Germany, Switzerland and Austria. With a feedback rate of approx. 35% we were able to generate deep insights into gallery management practices. Galleries were asked to evaluate a set of management dimensions. These results were then set in the context of their profit via a regression analysis, helping us to identify the success factors.

Secondly, we use the means of expert talks. We interviewed several industry experts from every group we identified in 2.3.4. These were commercial art mediators (art gallery dealers, private art dealers, auction houses, ancillary art business providers), conceptual art mediators (critics, museum staff), collectors (art connoisseurs, art lovers, collector-dealers, investors, representatives of corporate or institutional collectors), artists, art market researchers and experts from fields unrelated to art. Furthermore, one round-table discussion was organised. Participants at the round tables came from each of the groups stated above. Overall, these expert talks helped to generate a bigger picture of the art industry, as well as enrich discussion through creativity and diversity. The intention of these discussions was to verify results from the quantitative part, as well as generate new ideas or hear a different perspective on the market.

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15 A full list of interviewees can be disclosed upon request and is not published here due to privacy concerns.
Table 27: Interview Partner for Implication Part

<table>
<thead>
<tr>
<th>Interview Partner</th>
<th>Detailed Description</th>
<th>Location</th>
<th>Time Period</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Art Mediators</td>
<td>- Art gallery dealer - Private art dealers - Auction houses - Ancillary art business provider</td>
<td>Berlin Dusseldorf Zurich Vienna New York London Hong Kong</td>
<td>January 07 – June 10</td>
<td>28</td>
</tr>
<tr>
<td>Conceptual Art Mediators</td>
<td>- Critics - Museums</td>
<td>St. Gallen Burgdorf Munich Beijing</td>
<td>May 07 – Sept. 10</td>
<td>7</td>
</tr>
<tr>
<td>Collectors</td>
<td>- Art connoisseurs - Art lovers - Collector-Dealer - Investor - Corporates</td>
<td>Munich Dusseldorf Vaduz</td>
<td>June 09, June 10</td>
<td>3</td>
</tr>
<tr>
<td>Artists</td>
<td>- Art students - Artists</td>
<td>Dusseldorf Zurich Bregenz New York</td>
<td>January 07 – July 10</td>
<td>7</td>
</tr>
<tr>
<td>Art Market Researchers</td>
<td>- Students/professors - Researchers on the art market or related topics</td>
<td>Dusseldorf Hong Kong</td>
<td>May 07 – Feb. 10</td>
<td>2</td>
</tr>
<tr>
<td>Non-Art-related Experts</td>
<td>- Investment bankers - Asset management - Strategy consultants</td>
<td>London Dusseldorf</td>
<td>May 10 – June 10</td>
<td>4</td>
</tr>
</tbody>
</table>

Thirdly, three illustrative case studies were conducted to test our ideas for practicality and impact. The case studies were not merely used as theory to analyse current business practices in the gallery. They were used specifically as a field-test to implement strategies based on our results and thus verify them.

When it comes to case selection, both Eisenhardt (1989) and Yin (2009) favour multiple over single case studies. They argue that multiple case studies offer a more comprehensive landscape with which to analyse an emerging phenomenon. Others suggest choosing cases that represent one certain group of companies (Eisenhardt & Graebner, 2007). We decided to select galleries based on three criteria: their business model (according to our classification of business models); their profit; and their accessibility.

(1) It is useful to choose case studies according to the classification of their business model since we identified two different business models in the art market – the “primary market” and the “primary and secondary market” business model. Choosing galleries from each of them will help to exhibit a wider market in this exercise. (2) Similarly, selecting galleries based on their profit is
valid since we have seen that profit is a very useful proxy to distinguish one gallery from another and we used it as our dependent variable in the regression analysis. According to our data we identified three main profit groups. First, there is a group of galleries that make 0 or negative profit (losses) (-0-10% profit as a percentage of revenue). They represent almost 39% of the entire sample. Second, there is a group of galleries that make 0-10% profit. They represent 34%. Finally, there is a group that make 10% or more profit as a percentage of revenue. This group represents 26% of the entire sample. (3) Finally, accessibility is important, since the gallery market is highly secretive and private. Access to internal business processes and structure can only be granted if gallerists trust the researchers.

Overall, we were able to select three galleries based on these criteria. We choose one gallery from each profit group of which two are galleries that apply the “primary market “, whilst the third applies the “primary and secondary market” business model.

Each gallery was analysed in a longitudinal case study, ranging from a maximum of 16 months to as little as 3 months. Over this time, the author worked like a freelance consultant with the gallery to help implement strategy and monitor the success. All work was done in cooperation with the gallery owner and staff. The longitudinal case study allowed validation of the impact over a longer period of time to prove sustainability of these ideas. The galleries were the following:

Our least successful gallery, Galerie Heinrich Richter, was founded in 1999. Its revenue in 2008 was €457,000. In the same year it generated a loss of €22,850 (-5%). It sells solely Contemporary Art and has no subsidiary, and hence applies the “primary market” business model. It is located in a major city in Germany in a central location with 200m² of space (including the office, excluding the warehouse). The gallery employs one full-time and two freelance employees. In 2008 it participated at three art fairs and organised ten exhibitions. 10-20% of their revenue was generated at art fairs. The gallery will continue to participate at an equal amount of art fairs in the future. Its highest costs are rent, art fair participation fees and salaries. Its biggest group of visitors are the Vernissage crowd, followed – not surprisingly, given its central location and proximity to art museums – by the passing public and art enthusiasts. It considers art lovers to be its main group of clients, followed by dealer-collectors and art connoisseurs. Its main competitors are other galleries, artists and art dealers. The gallery cannot name its customer potential.

Our second gallery, Galerie Urs Ruetli, was founded in 2004. Its revenue for 2008 was €115,000, its profit €8,050 (7%). It sells solely Contemporary Art and has one other branch, hence applies the “primary market” business model. The main gallery is located in a minor city in Switzerland in a decentral location with a footprint of 150m² (including the office, excluding the warehouse). Their other gallery is located in a major city in Switzerland, again in a decentral location with 400m² of space (including office, excluding the warehouse). The gallery employs no full-time and two freelance employees. In 2008 it participated at one art fair and organised ten exhibitions
across the two locations. Less than 10% of its revenue was generated at art fairs. The gallery will continue to participate at an equal amount of art fairs in the future. Its highest costs are rent, art fair participation fees and salaries. Its biggest group of visitors are the Vernissage crowd, followed by collectors and art enthusiasts. It considers art lovers to be its main group of clients, followed by art connoisseurs and dealer-collectors. Its main competitors are other galleries, art dealers and artists. The gallery calculates its customer potential to be around 50.

Our third gallery, Galerie Phrasecut, was founded in 1987. Its revenue for 2008 was €4,150,000 with a profit of €705,500 (16%). It sells both Contemporary Art and Post-War Art, hence applies the “primary and secondary market” business model. It is located in a major city in Switzerland in a central location with 90m² of space (including the office, excluding the warehouse). The gallery employs three full-time employees and one freelancer. In 2008 it participated at five art fairs and organised six exhibitions. 31-40% of their revenue was generated at art fairs. The gallery will continue to participate at an equal number of art fairs in the future. Its highest costs are salaries, art fair participation fees and rent. Its biggest group of visitors are the Vernissage crowd, followed by collectors and dealers/art consultants/gallerists. It considers art lovers and investors and corporate collectors as its main customer groups. Its competitors are other galleries, auction houses and art dealers. The gallery cannot name its customer potential.

The following represents the results of our research approach. Boxes in grey indicate when examples from the case studies are presented.

4.2 Management Principles in Art Galleries

Our new model is based fundamentally on an increased relevance of management practices in communicating the arts. We regard an art gallery above all else as a profit-oriented business. However, there is still a strong and prevailing debate over the impact of management and business principles – among practitioners, as well as with academics.

On the one hand, there are claims that the intense focus on management and the processes that accompany it might infect artworks and reduce creativity. Artists fear that no real value will be created in the future and exhibitions will not generate new artistic insights but just add to the general “dumbing down” of society (Hausmann, 2010; Thompson, 2008). Losing value as a consequence of management is a common prejudice and a deep-rooted underlying attitude in the discussion on management for arts. In the debate over corporate sponsorship for the arts, critics are particularly vocal. They warn museums that they will become dependent on the money of corporate firms, whose aim is to take control of the programme and its content (Bortoluzzi Dubach & Frey, 2007). Also practitioners fear that the success of an art institution will be measured upon its visitor numbers and only those with the highest visitor counts will be granted state subsidies. Others are upset by the “arrogance of marketing experts who feel that they can bring a marketing toolkit from consumer goods to the arts and ply their trade” (Butler, 2000, p. 344).
On the other hand, a new understanding of the role of management in the arts is developing. The Arts Council in Britain has proved in a longitudinal study (1998-2003) that management principles have a positive impact on the arts. Under the theme of “Audience Development” and later “Not for the likes of you” they ran a £20 million programme to promote the arts with new audience groups. Their final report findings argue that art institutions must (1) create artistic, meaningful, highly appreciated exhibitions and (2) work with a profit-oriented slant by employing professional management to attract new customers:

“As everyone working in the cultural sector knows (even if they don't always like to believe it) you can run whatever schemes and campaigns you like to attract new people, but if you don't offer product they can personally connect with, they won’t come. Or worse, they will come – but only once, and then go away feeling more alienated than they did beforehand. Repositioning to attract a broad general audience means really understanding and accepting this basic truth, and building your programme accordingly” (Smyth, 2004, p. 33).

Smyth concludes: “Because creating product that is both artistically exciting and attractive to a broad audience means you have to think, vision and make connections more broadly, deeply and laterally than it is needed to devise a 'standard' programme [sic]” (p. 33). Mandel (2008) argues that management, marketing, and business processes in art institutions do not flatten out artistic quality. On the contrary, they leverage it and bring it to a new level, making it accessible to a greater audience (p. 85).

Additionally, other research and examples highlight that professional management in art institutions has a positive impact. A study by AT Kearney, an international consultancy, names three core principles for the success of an art institution: (1) professional management, (2) additional revenue streams and (3) an active role in a network (AT Kearney, 2006). Some museums have already shown that these principles lead to success. In particular, the German Museum Schirn in Frankfurt with its director Max Hollein serves as a best practice scenario for an art institution that has successfully implemented strong management tools without compromising on quality. In Gerlach’s analysis of the museum’s management practices, she concludes that economic concepts and strategic approaches lead to positive results (Gerlach, 2007). According to her, any art institution must consider itself an enterprise that adapts business principles to produce excellent artistic exhibitions. Schwarz (1986) argues that non-profit organisations are normal businesses that focus on the production of value, taking into account limited resources. Their success is measured in terms of quality and the impact of their value proposition. Accordingly, efficiency and effectiveness are key characteristics of a successful museum (Schwarz, 1986).

What the above authors have in common is that their understanding is based on the idea that art is a commodity and hence subject to market forces and consumer behaviour processes. A wide body of research and disciplines in recent academic literature have analysed the art market...
starting from this understanding (Caves, 2002; Jensen, 1994; Kotler & Kotler, 1998; Schroeder, 2000; Sturken & Cartwright, 2001; Watson, 1992).

Interestingly, the support of management in the art world is not limited to external scholars. Even artists have taken up on management principles. Successful artists, such as Andy Warhol, Barbara Kruger or Jeff Koons used marketing tools as strategic practice. They created a recognisable look, name and style – in other words, a brand. It can be argued that “successful artists can be thought of as brand managers, actively engaged in developing, nurturing and promoting themselves as recognisable ‘products’ in the competitive cultural sphere” (Schroeder, 2005).

To sum up, considering that even non-profit organisations and artists implement management practices, art galleries, as profit-oriented enterprises, should not be reluctant to do so. The intellectual, disciplinary and semiotic separation of art and business should no longer obscure the potential of implementing management tools in the arts. As Mintzberg said: “I believe the root of the problem lies not in the definition of the term efficiency but in how that definition is inevitably put into operation. In practice, efficiency does not mean the greatest benefit for the cost; it means the greatest measurable benefit for the measurable cost” (Mintzberg, 1989, p. 34). This implies that the implementation of management principles has to be done carefully. Not all management principles can be transferred to the art market. In fact, every new gallery model must emphasise the balance between artistic quality and management orientation. Several studies highlight the relevance of this balance between creativity and business competencies (Fillis, 2000, 2002; Rentschler, 2002; Rentschler & Creese, 1996).

4.3 Goals of Art Galleries

From our data it becomes evident that most art galleries have long neglected the power of innovation in their business model. It seems that the focus of their efforts lay more on artistically sound exhibitions rather than on the improvement of their business model to increase profits. This behaviour has led to the current situation where galleries employ little management skill and make the bare minimum of profit or even a loss. In order to sustain and improve their businesses, galleries must start to integrate economic aspects into their goal horizon.

The quest for efficiency, effectiveness and maximisation of profit in the art gallery business does, however, not mean losing one’s grip on the traditional goals of an art gallery. Gutbrod clearly points out in his dissertation on the management of museums that the goals of businesses operating in the art sector are manifold (Gutbrod, 1994). While we can leave out political aspects (which museums, for example, have to include in their goal horizon), we must certainly include social/ethical aspects. The future art gallery’s goals are therefore three-fold: first, there is an artistic aspect; second there is a economic aspect; and finally a socio/ethical aspect. All three are interdependent.
The artistic aspect covers the artistic value creation within the gallery. Working efficiently and effectively here means to receive the approval of a gallery’s reference group, such as artists, collectors, critics and other conceptual art mediators. This goal is hard to measure and is subject to an opaque and unclear valuation system. This is not to say that this valuation system cannot be manipulated in a certain direction. But the valuation system must approve the artistic component in a gallery. If a gallery fails to win over the art community and get their endorsement of its exhibitions and programme it loses its credibility in the market and hence undermines any economic goals.

The economic aspect is not exclusive to an art gallery. It is the most common feature of any business. It basically covers the goal of profit maximisation: in other words the most efficient use of resources to maximise return. Gallerists must accept that their business is like any other business, notwithstanding the perceived cachet of the product they are selling. However, in order to pay the bills, pay artists and foster the development of the gallery and its artists, gallerists must focus on their profit. Currently, galleries lack profit orientation which is symbolised by their inefficient use of resources and only little or no return.

The final goal of an art gallery can be described as socio/ethical. Galleries are part of an industry that is based mainly on trust and personal interaction – with artists, customers and colleagues. It is very rare for gallerists to hold written contracts either with their artists or with their business partners. Moreover, insider trading is an accepted part of the business since the industry completely lacks transparency. That said, in order to sustain their business and create value in the market on a long-term basis, gallerists must ensure that they do business according to the accepted ethical standards and regulations of the industry. To earn credibility, not only among colleagues, but also among clients and artists, gallerists must act ethically and responsibly.
The goals presented above are the fundamental aspects to describe a successfully operating art gallery in the 21st century. We could therefore formulate the following definition of a successful gallery:

An art gallery is successful when it manages to gain the approval of its reference group consisting of conceptual art mediators, collectors and artists, while at the same time maximising its financial profit on the basis of business practices that follow ethical guidelines.

4.4 Reassessing Art Galleries’ Business Model

Based on the definition of successful art galleries this chapter will present ways to actually get there. At this point it is noteworthy that not all of the following concepts apply to every gallery. In fact, each gallery has to decide for itself to what extent it applies the following proposals. They serve more as a guideline, rather than as rigid principles. Certainly, a gallery may also have success by applying a totally different approach. However, from our data and our analysis we regard the following approach as the most useful and applicable. Following nine trends outlined below, we describe the future development of the industry art galleries operate in and thereby blaze the trail towards a new gallery model.

(1) In our data we find that most galleries present a similar value proposition. In times when clients are overloaded by offerings, art galleries must establish a value proposition that allows them to differentiate themselves from other players in the market. The gallery must succeed in conveying the advantages of this value proposition to its customers.

(2) Our data shows that the current customer concept has no (or even a negative) impact on profits. Galleries do not succeed in targeting the best customers any more. A whole new customer group is coming up – in galleries’ home markets and abroad in emerging countries, such as India and China. They are young, highly educated individuals with a huge income, willing to purchase artworks on the basis of four motives (social, symbolic, cultural and emotional). Although only fleetingly experienced in the arts and with no previous track record in the art market, they wish to claim their position in a certain class, as well as looking for “edutainment” in their leisure time. In order to satisfy this new customer group the gallery must succeed in offering them a convincing value proposition.

(3) Our data shows that the communication concept has a large and significant negative impact on galleries’ profit. This is because galleries do not reach their customers with their current communication concept. Today customers seek strong brands that help them to navigate this market and represent unique characteristics. A gallery must therefore build up a strong brand that is instantly recognisable to existing and potential customers alike and distinguishes the gallery from its competitors.

(4) Our data shows that galleries’ revenue concepts do not vary much. It seems that the current revenue concept has been left untouched for decades. Consequently, revenue and
particularly profits are extremely low. Attractive and innovative pricing models must therefore be introduced, and side products commercialised.

(5) Our data shows that the current growth concept has a negative impact on art galleries’ profit. Galleries must therefore define a suitable growth concept in a market that is highly fragmented with hundreds of players in every city, all with almost equal value propositions. Even the products (artworks) are substitutable as artists become harder to distinguish from each other. As players increasingly see the results of professionalism, the industry will see the emergence and growth of global players presently seen in only a very few examples (Gagosian, Hauser+Wirth, etc.). These global players will mark their presence internationally with subsidiaries in major art hubs.

(6) Our data shows that competencies do not vary significantly from one art gallery to another. Including strong management principles in gallery business practices will increase the level of professionalism within the industry. This development is accompanied by a shift in educational requirements for a job in the industry. Management know-how will be a core competency that employees must display. This demand for higher qualifications and requirements leads to a higher salary, as well as introducing a more businesslike ethic and standard in business routine.

(7) Our data shows that the organisation structure should be the starting point for any changes in the market as it has a large and significant impact. As auction houses become more and more involved in the primary market (for example, Christie’s with Haunch of Venison), artists sell directly through auction houses and museums buy in artists straight from the university, the traditional distinction between the primary and secondary market is becoming obsolete. Furthermore, the increased demand for professionalism and augmented complexity of the operating model calls for a clear organisational structure in art galleries. Galleries must therefore enlarge their value chain and become active in all the careers steps of an artist’s life-cycle. In order to achieve this, galleries must define clear roles, job positions and descriptions. Galleries will do so by making use of technology to foster this process and speed up business processes.

(8) We found out that the cooperation concept has a positive impact on profits. Presently, art galleries have very few network partners. In order to gain access to new customers, galleries must engage in cooperation with a range of partners. The selection of and engagement with cooperation partners will therefore play a significant role in developing the market and its potential.

(9) Our data highlights that the coordination concept has a positive impact on performance, yet it is statistically insignificant. Coordination is strongly linked with the professionalisation of industry practices. Eventually, artists will start to become their own managers and formulate precise and demanding expectations. Detailed cooperation concepts, including contracts, must therefore be implemented. Following a trend we are
already seeing in Asia, artists will be reluctant to agree to exclusive representation by one gallery. Furthermore, the relationship between artists and galleries will be subject to a (formal or informal) reviewing process.

Based on these trends, as well as our data and literature, we are able to generate deep insights into the management capabilities and concepts of current art galleries. From what we found out in our analysis, we develop in the pages that follow a new business model to run an art gallery. In order to structure our thoughts we again use the Bieger et al. (2002) business model concept that guided us through the Analysis. We base our ideas on our findings from the analysis, in particular on our identification of success factors. The following table compares existing business models with our new business model.

Table 28: Traditional Art Gallery Business Model vs. New Art Gallery Business Model

<table>
<thead>
<tr>
<th>Business model components</th>
<th>Primary Market Galleries</th>
<th>Primary + Secondary Market Galleries</th>
<th>New Art Gallery Business Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which benefits do we transfer? What job has to be done? Value proposition</td>
<td>Sale of Contemporary Art (solely)</td>
<td>Sale of Contemporary Art AND other sector (for example Old Master)</td>
<td>Offering value to its clients that distinguishes the gallery from competitors through offering full-range services from basic to potential product</td>
</tr>
<tr>
<td>How is this benefit communicatively anchored in the relevant market? Communication concept</td>
<td>Traditional channels (post, mailing, ads)</td>
<td>Traditional channels (post mailing, ads)</td>
<td>Goal: establish a brand through an innovative but cost-effective approach via various channels, networks and partners</td>
</tr>
<tr>
<td>How are the revenues generated? Revenue concept</td>
<td>Selling contemporary artworks</td>
<td>Selling contemporary artworks; Selling/dealing non-contemporary artworks</td>
<td>Innovative ideas to increase quantity of artworks sold, while offering attractive pricing models and cutting costs through operational efficiency and flexible arrangements for artist’s share; commercialisation of side products</td>
</tr>
<tr>
<td>Which growth concept is pursued? Growth concept</td>
<td>No growth concept</td>
<td>No growth concept</td>
<td>Target: develop concept that allows distribution of art on a global scale</td>
</tr>
<tr>
<td>Which core competencies are necessary?</td>
<td>Competence in art history</td>
<td>Competence in art history</td>
<td>Advanced competence in management, marketing &amp; selling needed to achieve perfect</td>
</tr>
</tbody>
</table>
As an overview, the following graphic summarises the key ideas of our new model for art galleries.

**Figure 41: Conceptualisation of the “New Art Gallery Business Model”**
4.4.1 Organisational Concept

The results of our regression analysis show that the organisational concept presents a good starting point for a revision of galleries’ current business models since it has a powerful positive impact on profits. Furthermore, the organisation concept is highly correlated to various other concepts, specifically the customer concept (.90), revenue concept (.72), coordination concept (.73) and the cooperation concept (.82). Unlike our normal procedure (starting with value proposition) we will therefore start with the concept at hand.

Galleries should align their organisation model to the career steps of an artist’s “life-cycle”. As we identified in 2.3.4.3 artists’ careers can be separated into three key phases: the shopping phase, the decision phase and the final phase.

The shopping phase is characterised by young artists with impressive exhibition records at varying locations, particularly in the off-space scene, who are funded by scholarships and hope to be spotted by an Alpha or Beta gallery (Robertson, 2005; ICG Culturplan, 2010). The second phase, the decision phase, is characterised by more mature artists that have found their role in the art market and their representation (or not). It is in this phase when it becomes easier to distinguish artists from each other as they start to enjoy success and popularity (Robertson, 2005; ICG Culturplan, 2010). The final phase is characterised by a great percentage of artists who abandon full-time work as artists while just a small fraction are successful and are dealt in the secondary market, both during their lifetime and after their death.

In order to align with the three career steps, the galleries should impose a three-fold organisational structure with the “garage”, the “gallery” and “Fine Art”.

The “garage” is active in the shopping phase of an artist’s life-cycle. It presents an exhibition space for upcoming and emerging artists. Its aim is to create a dialogue with the local off-space scene and upcoming artists and establish the brand of the gallery within the art community, potential buyers, existing buyers and conceptual art mediators. It follows the concept of a Kunsthalle, i.e. it is non-profit oriented. That means that artworks still can be sold but while the artists get their share the other part goes into a central fund which is solely used to sponsor upcoming exhibitions at and cover the expenses of the garage. This creates a feeling of community among the artists involved and binds them together. The garage is also supported by a small circle of benefactors, which includes the gallery owner. Benefactors are obliged to invest a relatively small amount in the garage on a yearly basis to support this non-profit organisation. Their money is given free of any conditions, but on the understanding that they are supporting upcoming and emerging artists and have access to the off-space art scene. It is important to limit the administrative expenses for this circle to a minimum. On a yearly basis benefactors and artists receive an annual report that includes a statement of income and reports on past and upcoming exhibitions. The garage is run and organised by someone who is solely employed for this job, preferably a young student who wishes to become an art gallerist at some point and is connected to the art scene. This is not a full-time job, since exhibitions are held only two to four
times a year. Overall, the garage represents the perfect tool for the gallery to establish a brand not only on the scene but also with potential buyers. It adds vastly to credibility and has enormous potential, and is economically broadly self-supporting.

The “gallery” is active in the decision phase of an artist’s life-cycle. It describes the traditional model of an art gallery for Contemporary Art. In the new model, art galleries will drastically limit their number of exclusively held artists. An art gallery of the average size that we currently find in the market (with only one employee) simply cannot manage to exclusively represent 8-12 artists in Germany. While major galleries with over 15 employees do so, small galleries certainly cannot. Furthermore, following a trend we are increasingly seeing in Asia, artists will develop their own self-promotion skills. Being exclusively attached to one gallery not only limits their selling potential but also puts them in a precarious position of dependence. This new freedom and independence is not only good for artists but also for gallerists because they can focus on the absolute pick of the artists. A reasonable number for an average-sized gallery is between one and four artists that they represent exclusively and for whom they act as agents. In the future galleries will develop a stronger brand and a clearer profile. Offering solely Contemporary Art will be no longer be an option for any gallery hoping to be successful. Furthermore, galleries must find answers for customer’s quest for clarity, structure and added services. Galleries will also collaborate with partners from other industries chosen to help to strengthen the brand and reach out to new customers – all with the end aim of cost-effective working. Furthermore, galleries will move to cheaper locations from where they invite targeted customers to visit their gallery.

“Fine Art” is active in the final phase of an artist’s life-cycle and describes the activity of a gallery on the secondary market. Fine Art artworks are those from (1) artists that the gallery built up who are now so successful that they attract considerable resale value and (2) artists from other categories such as Modern Art, Post-War Art etc. who are dealt and traded on the secondary market. From our research we found that galleries operating in the secondary market usually make higher profit. Hence, every gallery should aim to be involved in this area. Being active here requires not only good contacts with colleagues and dealers but also with clients. Gallerists must therefore constantly enlarge their network and reach out to wealthy clients that can afford the secondary market. Location-wise, Fine Art does not need any fixed location. When it comes to showing an artwork, temporary spaces (such as conference room in hotels or showing rooms at art shipping companies) can be rented.

There are two advantages to this three-fold organisation structure.

First, the structure generates higher and more diversified revenue since the gallery is active in all three phases of an artist’s career. This becomes particularly important when the difference in the revenue streams across the three phases are observed. Fesel (2008) points out that galleries active in the shopping phase do not receive much revenue as a consequence of the heavy initial costs in establishing the artist in the market (advertising costs, catalogues etc. vs. the small revenue from the lower prices). Galleries active in the decision phase are subject to heavy competition from
other galleries and market fluctuations. Finally, galleries that are active in the final phase usually generate high returns as they are in a far more powerful selling position and make higher margins from the secondary market. Being active in all three markets insulates against troughs in any of these. Star gallery owner Iwan Wirth explains this in an interview with the Financial Times “It is a balance, but operating on the secondary market makes very long-term investments in the careers of certain artists possible. The cycles are far more extreme if you just do primary” (Adam, 2010).

The second advantage is that galleries can become more flexible. Like the orchestrator model (where a player organises and manages activities in a network, outsourcing widely to contractors or a large pool of service providers), the gallery is active in both the primary and secondary markets but works closely with a team of contractors. The relationship with these providers is tight and based on very detailed and restrictive contracts. The gallery can also be more flexible if it temporarily rents rooms. A fixed location is not necessarily required for the garage. And for Fine Art in particular, gallerists will not need to rent a room because in most cases artworks can be viewed either at the current location or in showrooms at the storing space.

The following organisational graphic shows these relationships diagrammatically. It is useful to chart the relationships like this because it serves as a map to show future employees where they fit into the overall business (Schaper & Volery, 2007).
Case Study

Galerie Heinrich Richter, located in a central location in a major city, suffered from heavy competition in the Contemporary sector and low margins, while at the same time struggling with high costs, particularly for rent. By the end of 2008 he had made a loss because revenue fell and costs (in particular for his exclusive location next to the art academy and local art museum) remained stable. This was not only a result of the 2008/2009 art market crisis but had been a recurring theme throughout his career as gallerist.

Together with Richter we developed a new organisational model that should address his key problem and change all other dimensions of his business model.

At first, we set up the garage. It was always Richter’s dream as a gallerist to act as an agent for young new artists. Because he was so heavily occupied with getting his gallery running, he could never really work on this. We therefore implemented an infrastructure that virtually ran itself, at very low cost. When trying to find an exhibition space Richter knew that he needed an off-space room that allowed for rough and inspiring exhibitions. He therefore rented a garage close to his gallery. In the garage he could park his car most of the time but remove it for exhibitions.

For the gallery part, we decided to leave the external appearance of the gallery as it was. Internally, however, we reduced the number of artists, employed one full-time staff member, targeted new customers and communicated our new value proposition (a focus on edutainment) to them, identified new revenue areas and engaged in cooperations that were secured by signed contracts.
For the Fine Art market, he started to deal in Post-War Art because his art history thesis had given him extensive theoretical knowledge on it, and he had existing contacts. He soon realised that the margins are considerably higher than in the primary market, although the business is more intensive and needs more attention. Consequently, he focused 70% of his time on trading Fine Art.

Urs Ruetli had very similar problems to Richter. Although he generated profit, it was very small. Together with Ruetli we implemented a new organisational model that should radically change his way of doing business.

For the garage, Ruetli rented various small exhibition spaces for every show or used his gallery as temporary exhibition space. He teamed up with the local art magazine to foster its development and attract the Arty group.

For the gallery, Ruetli applied a very similar approach to Richter, though with a different value proposition and different characteristics to the business model components. While Richter almost entirely handed over the primary market to a new employee, Ruetli still focuses 70% of his time on this market because the secondary market is still building up. Nonetheless, Ruetli has started building up some competence in Fine Art. He is currently trying the secondary market with some of his elderly artists who have an auction track record, and he is also targeting existing collectors in his (minor) city to ask if they are willing to sell some of their masterpieces. At the same time he is widening his network to include other art galleries operating in the secondary market.

Phrasecut already had a three-pillar structure established. The gallery itself illustrates that being active in all three phases of an artist’s life-cycle offers clients a value proposition that distinguishes it from most other galleries. Its value proposition revolves around its excellent customer service, communicated via selected channels to its clients. Interestingly, the gallery is continuously looking for new young clients whom it can build up and develop into lasting clients. New clients are actively recruited at art fairs, as well as through strategic marketing cooperation with luxury companies. Phrasecut is a good real-life example of a gallery that employs a three-pillar structure (to a certain extent) and is extremely successful with it.

4.4.2 Value Proposition

The results from our regression analysis show that the value proposition is not positively related to profits. In fact, it is statistically and economically insignificant and shows a negative coefficient. This could imply that most galleries offer their clients a very similar value proposition. According to Johnson et al. (2008), however, it is the value proposition that distinguishes a firm from its competitors. Furthermore, they argue that companies must enrich their businesses and develop it into an integrated value chain. Our new organisational structure reflects this: today, most art galleries sell Contemporary Artwork as their basic product. However, they forget to find ways of adding value to it based on the demand and wishes of customers to increase their value perception. Our new organisational structure allows the gallery to be active in all three markets and thereby offer an innovative and extended value proposition.

Kotler (2008) identifies five product levels in regard to customer product perception.
The most fundamental level is the core benefit. It symbolises the benefit any customer get out of the product. In our case the core benefit is the presentation of the product, i.e. the artwork and the perception of it as source of inspiration, decoration, discussion or investment.

The second level is the basic (or generic) product. The basic product is the rudimentary “thing” that is the substance of the value transfer between gallery and customer, i.e. the actual artwork.

The expected product represents the customer’s minimal expectation. Of course, these expectations can vary by customer. In an art gallery the most common expectations are free drinks and food, talk and exchange with others, a pre-selection through the gallery, an innovative and diverse programme, excellent service and quality art.

The augmented product is a means of product differentiation. It serves as a tool to create customer dependency on the gallery because customers are offered more than they think they might need or expect. Our new model allows for just this: It offers the customer insight and connection to the art scene along every life-cycle of an artist in every market, a warm welcome, trusted brand (transparency, limitation of complexity), an event, “edutainment” (combination of entertainment and education), access to a new network, etc.

The potential product consists of everything that a customer might feasibly get in the future. These are reputation among a peer group through participating at an event in this gallery, private access to peers, integration in the gallery programme, invitations to VIP events, expectation of an increase in the value of a piece post purchase, etc.

Case Study

When we started working with Galerie Richter, the core benefit he communicated to customers, as a gallerist, was that art is a source of inspiration and a critical mirror of our society. Through the creativity of artists we are invited to reflect on personal feelings and ourselves. The basic product was the actual artwork that is transferred between gallery and customer, priced between €4,000 and €40,000 and belonging in the Contemporary Art category. The product customers expected to receive was a selection of interesting artists. An augmented and potential product did not exist or could not be named by the gallery.

With Galerie Ruetli we found almost identical product levels in regard to customer product perception.

The problem we identified was that both galleries seem to offer a value proposition that was not only identical to each other’s but also to that of their competitors, and consequently did not serve to differentiate them. Together with the gallerists we added components to their value proposition. Our new organisational concept allowed galleries to sell not only Contemporary but also other artworks from different periods and thereby become active in the secondary market. Galerie Richter’s new value proposition is to offer interesting quality art from young to established artists, combined with a strong focus on edutainment that allows clients to profit from an established brand and get access to a society network. Galerie Ruetli’s value proposition is to offer an excellent curatorial programme in a nice setting.
that provides stimulating and inspiring talks in person with the artists, thus offering clients access to artists and their world.

Galerie Phrasecut is a good example to show how a gallery could build up in 20 years an excellent and unique value proposition. The gallery stands for quality art (from different periods), excellent management competence that gives superb customer service (free hanging, etc.) and access to the world’s best artists and most interesting collectors, all brought together under one roof.

The following table compares the individual value propositions:

**Table 29: Comparison of the Value Proposition of the Three Case Studies**

<table>
<thead>
<tr>
<th>Product level</th>
<th>Richter/Ruetli (old)</th>
<th>Richter (new)</th>
<th>Ruetli (new)</th>
<th>Phrasecut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core benefit</td>
<td>Art as a source of inspiration, mirror of society</td>
<td>See left AND art as a source of investment</td>
<td>See left AND art as a source of discussion</td>
<td>See left</td>
</tr>
<tr>
<td>Basic product</td>
<td>Contemporary artwork, priced between €4,000 and €50,000</td>
<td>See left AND artworks traded in secondary market</td>
<td>See left AND artworks traded in secondary market</td>
<td>See left AND artworks traded in secondary market</td>
</tr>
<tr>
<td>Expected product</td>
<td>Selection of interesting artists</td>
<td>See left AND an edutainment programme, customer service (free delivery for artworks above €10,000, long opening hours)</td>
<td>See left AND an interesting curatorial programme</td>
<td>See left AND excellent customer service (free delivery, advisory service at home), excellent and sophisticated curatorial programme</td>
</tr>
<tr>
<td>Augmented product</td>
<td>-</td>
<td>Focus on fun and social event, excellent network opportunity, diverse edutainment programme in gallery</td>
<td>Close contact to artists (who are always there), very personal contact, very close attention to customers’ wishes</td>
<td>Close contact to artists, fairness with clients and artists, brand stands for transparency + quality art</td>
</tr>
<tr>
<td>Potential product</td>
<td>-</td>
<td>Access to VIPs, increase in prices of artworks (investment), integration in gallery programme</td>
<td>Access to artist’s life and way of thinking</td>
<td>Access to world’s best artists’ studios, VIP tickets to premium art fairs</td>
</tr>
</tbody>
</table>

Potential product

- Access to VIPs, increase in prices of artworks (investment), integration in gallery programme
- Access to artist’s life and way of thinking
- Access to world’s best artists’ studios, VIP tickets to premium art fairs
4.4.3 Customer Concept

Our results from the regression analysis show a statistically insignificant and negative coefficient for the customer concept. Again, this appears to be because most galleries target a similar group of customers. Consequently, competition among galleries for existing customers is fierce. A successful gallery will therefore – in addition to existing customer groups – identify new customers and target them with a corresponding value proposition. This also means that a gallery may need to exclude some customer groups that competitors regard as relevant (Tomczak, 2007). It is the discipline to focus on truly relevant customer groups that will allow art galleries to concentrate their services and provide greatest value to their clients.

Practitioners often claim that the demand side of the art market is saturated. Colbert cites practitioners: “The main problem facing cultural organisation today is the saturation of their market” (Colbert, 2009, p. 14).

However, a look at available data reveals that the general wealth increase over the past years is very steady. The recent Global Wealth Report (2010) shows that the number of millionaire households rose by about 14% in 2009, to 11.2 million. The United States had by far the most millionaire households (4.7 million), followed by Japan, China, the UK, and Germany. The highest millionaire densities are in Singapore, Hong Kong, Switzerland, and the Middle East. The wealthiest region remains Europe, with $37.1 trillion – one third of the world’s wealth (Capgemini & Merrill Lynch, 2010). Besides growing wealth, a whole new class of collectors is developing in emerging countries such as India and China. Hong Kong already counts as the third largest art market by auction turnover, having seen a rise by 200% between 2004 and 2009 in auction turnover (Artprice, 2009).

Interestingly, the domestic market also shows huge potential. Current statistics show that in Germany 10% of the population claims to have a strong interest in art, while 3-4% can be described as an active consumer of art. These figures are relatively small when you consider a claim from the same source that 50% of the population in Germany could be mobilised and motivated to take an interest in art (Institut für Demoskopie, 2006; Mandel, 2008; Zentrum für Kulturforschung, 2005). These figures show that the art market is far from being saturated. It is more a question of identifying this new group of customers.

So who are these people? Colbert (2003) describes the potential consumer/visitor as “female, well-educated (university graduate), earns a relatively high income and holds a white-collar job” (Colbert, 2003, p. 31). As we identified above and as research suggests, their motives to visit an art gallery could be two-fold: first, an art gallery visit satisfies needs that are not directly related to the arts. These are symbolic and social needs. A visit to an art gallery allows them to communicate their personality and value. Like Prada shoes or a Gucci bag, they achieve the same effect as being seen at a certain event to demonstrate their association with a particular group. In addition, communication with others and meeting peers (social needs) are satisfied by an art gallery visit. Second, an art gallery visit, like a museum, could also stimulate needs that
are related to the artworks. These can be *emotional* and *cultural* needs. People might visit an art gallery for the desire to consume art as a means of resolving a problem, inspiration or getting away from daily problems. Other reasons could be that people seek the acquisition of knowledge (Botti, 2000; Colbert, 2003). Mandel (2008) emphasises that the symbolic and social motives are the more prevailing, arguing that the primary motive to visit an art institution is the social activity, i.e. people most enjoy those events where drinks and food are served. Interestingly, our data generated from the galleries shows that the most frequent visitors to an art gallery are Vernissage people, i.e. those that are interested in the event. They are motivated more by symbolic and social needs.

This description is supported by a recent study on audience motivation, choice and relationship with cultural products and services (Pulh, Marteaux, & Mencarelli, 2008). The authors argue that there are seven broad consumer trends: (1) consumers seek a shared rather than an individual experience, (2) their senses should be stimulated in a number of ways, (3) they wish to get involved and become “spect-actor”, (4) they want “edutainment”, combining acquisition of knowledge with an emotional response, (5) they wish to choose, in accordance with their wants and needs, a mix of genres, giving precedence to one or the other, (6) they want it all and want it now and (7) want to integrate new technologies in the consumption.

Why don’t they come in greater numbers? Mason and Carthy (2006) have conducted a study on this group that indicates what distracts them from visiting a gallery. “There is no sign over the door barring young people from visiting art galleries, but we argue that there might as well be, because these institutions effectively deter young visitors by making them feel that they do not belong” (Mason & McCarthy, 2006, p. 21). Particularly, bankers, consultants, attorneys and corporate employees do not participate in the market, partly as a consequence of insufficient funds but mostly resulting from uncertainty and little experience with the market. Colbert (2003) identifies four risks that deter people from entering a gallery and buying art: First, there is a *functional* risk. People fear that when they visit a gallery, they may be bored and hence waste their time and money. Second, being seen in a place that doesn’t match our own perception of how others see us can be described as *social* risk. Third, the *psychological* risk describes a risk that people feel uncomfortable or insecure when entering a gallery if they lack knowledge and experience. Finally, there is an *economic* risk associated with money and leisure time that is at stake (which clearly overlaps slightly with the functional risk).

Another reason is the direct competition among cultural products (Colbert, 2009). When we argue that customers are looking for entertainment, we find that galleries are in competition with several leisure offerings. In today’s society customers can choose between several entertainment options such as sports, television, other art institutions, bars, restaurants, volunteer work or studies. For a consumer, the decision to enter a gallery is therefore not only based on the pocketbook, but also about state of mind, and the alternatives available.
The following table summarises characteristics of this new customer group, as well as showing what distracts them from entering a gallery:

**Table 30: Description of a New Class of Clients**

<table>
<thead>
<tr>
<th>Description</th>
<th>What distracts them</th>
</tr>
</thead>
</table>
| Demographic:  
- late 20s and above, higher percentage of female than male | Other leisure options available:  
- sports  
- bars/restaurants/clubs, etc. |
| Geographic:  
- local or international, travelling internationally | Risks:  
- Functional risk (fear of wasting time and money or getting bored)  
- Social risk (being seen in a place that doesn’t match the perception the client wants to project)  
- Psychological risk: (feeling insecure, uncomfortable, intimidated by entering “new world”)  
- Economic risk: (money invested falsely, leisure time at stake) |
| Economic and social status:  
- highly educated, high income  
- hold white-collar job | |
| Purchase behaviour: (motives)  
- Symbolic needs (demonstrate association with a group)  
- Social needs (communication and exchange with others)  
- Emotional needs (consume art as a means of inspiration, variation to daily working routine)  
- Cultural needs (acquisition of knowledge and education) | |
| ➔ Focus on symbolic and social needs | |
| Personality and lifestyle:  
their expectations & wishes  
- shared more than individual experience  
- stimulation of senses through quality art  
- involvement (“spect-actor”) in fun events  
- “edutainment” with excellent crowd  
- mix of genres, variety but focused and selected by expert  
- want it all and want it now through excellent customer service  
- integration of technology | |
| Their relation to art  
- irregular attendance at openings  
- little experience of the art market  
- enjoy the event more than the art | |

This new customer group, as with any other customer group, needs to be targeted with an individualised value proposition (Tomczak, 2007). It is the advantage of our three-fold structure that it allows for a tailored approach to every customer group. In order to simplify things we have clustered existing groups into three defined target groups. It is noteworthy that this table includes those customers already presented in 2.3.4.3, as well as our new customer group and also people who are unlikely to buy something in the near future but characterise a valuable form of word of mouth publicity. The new target groups are the following:
(1) First, there is the group of those people who are closely connected to the scene. This is numerically a huge group but usually does not have sufficient funds to purchase an artwork. Since it has close ties with the art community we will call it the “Arty group”. It consists of art students and conceptual art mediators.

(2) Second, there is the group of people who only have a loose connection to the arts but have sufficient funds. So far, they have been completely left out of the market. This group is numerically the biggest group and has the greatest potential. Attracting these people from outside the market to within and winning them as clients is the new aim of gallerists. Colbert (2003) therefore argues that art “managers must [...] find a way to attract consumers from outside the traditional art markets” (p. 38). It is exactly this group that we will put our main focus on. Due to its newness in the market and its huge potential we will call it the “Rookie group”. It consists of the new group of customers, as well as the existing customer group of art connoisseurs.

(3) Third, there is the group of people who have long been actively involved in the arts market. They are the ones that most galleries compete over and usually represent the market. Their impact on the market is proportionally huge compared to their actual number. Given their long history and close connections with the art market we will call it the “Traditional group”. It consists of the following existing customer groups: art lover, dealer-collector, investor, corporate collector.

The following table summarises the target groups, their description and how the value proposition fits into it:

### Table 31: Market Segmentation and Corresponding Value Proposition

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Value Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ARTY GROUP</strong> (Art students &amp; their friends, + conceptual art mediators, i.e. critics, press, museum staff, employees of art business service providers)</td>
<td>Demographic:  - along all year groups, mostly young  &lt;br&gt;Geographic:  - local  &lt;br&gt;Economical and social status:  - educated; low to middle income  &lt;br&gt;Purchase behaviour:  - frequent attendance at openings (heavy users);  - highly unlikely that they will purchase a work  &lt;br&gt;Benefit:  - see right  &lt;br&gt;Personality and Lifestyle:  - engage in critical dialogue with artists, visitors and mediators  - interested in both content</td>
<td>Garage: (provides)  - free drinks and food  - non-profit, independent organisation to foster the art scene and young talents  - exchange and interaction with artists in easy setting  - addition of off-space art room with direct connection to art gallery – a stepping-stone  &lt;br&gt;Gallery: (provides)  - free drinks and food  - inspiration to work  - networking, exchange  - interviewing</td>
</tr>
<tr>
<td>Group</td>
<td>Demographic</td>
<td>Geographic</td>
</tr>
<tr>
<td>-------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>ROOKIE GROUP</td>
<td>late 20s and over</td>
<td>local</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRADITIONAL GROUP</td>
<td>late 30s and over</td>
<td>regional, national, international</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
- regular buyer
Benefit: see right
Personality and lifestyle:
- motive:
  art lover: love of art, inspiration, altruistic, collection
  investor: investment, return
  dealer-collector: art as an investment and extension of own collection with the intent to maximising profit with an eventual resale
  corporate collector: corporate identity, employee motivation and inspiration, scatter effect, corporate communication, marketing
- little to intensive exchange with artist, mostly focusing on career development
- dealing with art and loans to museums (sometimes to increase value)
- fluctuation in styles

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**Case Study**

Heinrich Richter suffered hugely from the sheer scale of competition for clients in his major city location. Moreover, he sometimes had the feeling that he kept meeting the same clients, just at different events.

We therefore examined his circle of potential customers and identified that he had a large group of friends in their 40s from school, university, golf and the tennis club who had actually not bought Contemporary Art – either with him or with any other gallery. When he called some of them to find out why they haven’t ever bought art, their answers were very similar: it was not that they weren’t interested in art or didn’t have the money; however, the sheer complexity of the art market and lack of experience deterred them from buying art. Richter saw that this group (what we have above called the Rookie group) showed great potential. Together with Richter, we defined a value proposition that is unique to this group. It includes a combination of entertainment, social events and education with a strong focus on social networking. He decided to focus his communication endeavours on this group.

Urs Ruetli fought with similar problems. To an even greater extent in his minor city location, his clients mainly consisted of those people whom he also met at other art events, i.e. people who were also members of the “friends of the museum” and other cultural institutions (Traditional group). He recruited most clients out of this group, although he was aware that all the other galleries in the city had the same target in their sights.
We therefore analysed the customer potential in this minor city. Surprisingly, we found out that the average resident’s income in this city was among the top 15% in the country. Together with Ruetli we defined the new customer group as more mature people (over 50) who are heavily locally involved (for example the Rotary, etc.), show some affiliation with art but are equally interested in the social aspect, wish to be treated exclusively and have very little experience with buying art (Rookie group). Ruetli knew that his value proposition towards this group needed to include a very strong personal statement by him to create a trusted brand and to provide events that were simultaneously informative, social, entertaining, and sophisticated.

Phrasecut today is in the lucky position of representing such successful artists that clients approach the gallery when new artworks are on the market. However, this has not always been the case. Phrasecut describes that the key to its success was that, from the start, the gallery brought together clients and artists and grew with this relationship. Most of its current clients bought their first artwork at Phrasecut and have since retained their relationship with the gallery and its artists. So Phrasecut developed clients from the Rookie group into the Traditional group. Even today, Phrasecut claims that the key to its success is spotting new potential collectors and developing and growing with them. Phrasecut’s value proposition meets the expectation of new collectors, as well as traditional ones: a unique brand, quality art and professional services.

4.4.4 Communication Concept

Our data shows that the communication concept has statistical and economic significance. Surprisingly, it holds a negative sign, i.e. it negatively impacts profits. It seems that regular newsletters via email and post, as well as advertisements in art newspapers, do not seem to generate the expected value add. From our data we see that almost every gallery applies the same advertisement approach with little or no impact. Traditional marketing tools do not reach out to potential clients because clients are overloaded with invitations and news on artists and events. According to the market segmentation conducted above and literature, clients want clarity and transparency, reduced risk and personalised offers corresponding to their motives. Considering that there are so many artists, different genres, and styles, Colbert (2003) clearly states that no individual can evaluate all the thousands of offers in the market before making a purchase decision. Consumers therefore evaluate only an “evoked set of products”, i.e. a small number of products (Kotler & Armstrong, 2008; Kuss et al., 2007). Art galleries must therefore aim to become part of the consumer’s evoked set of products by building up a unique brand. Thompson (2008) and Caldwell (2000) argue that a successful company in the art industry must establish a strong brand and position it accurately.

“A brand is name, a sign, a design or a combination of them, intended to identify goods and services of one seller or group of sellers to differentiate them from those of competitors” (Kotler & Armstrong, 2008, p. 43). A brand’s function is two-fold.

On the one hand it serves from an outside-in perspective, meaning art consumers have a certain perception of the gallery. Becoming part of a brand allows self-expression and demonstrates social status. A brand also offers consumers a shortcut in processing information. Furthermore, a brand not only has an effect on the selection of the art institution but on the perception of the
artwork itself (Colbert, 2003): in other words, people’s perception towards an artwork varies according to the setting in which it is displayed (Cirrincione & Pace, 2005).

On the other hand, it contributes to the inside-out perspective, i.e. the owner of a brand has some advantages from it (Caldwell & Coshall, 2002; Esch, Herrmann, & Sattler, 2006). A brand allows marketing managers of art galleries to simplify communication with the targeted group: the stronger the brand, the less information is needed to describe the product and convince people to buy.

The following table summarises the functions of a brand:

Table 32: Function of a Brand from Two Perspectives

<table>
<thead>
<tr>
<th>Outside-in perspective</th>
<th>Inside-out perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>- satisfies social and symbolic needs</td>
<td>- differentiation from competitors</td>
</tr>
<tr>
<td>- guidance and reduction of complexity</td>
<td>- creates loyalty among visitors and clients because branded goods have a reputation for quality and perceived quality</td>
</tr>
<tr>
<td>- seal of quality and risk reduction</td>
<td>- heightens market entry barriers</td>
</tr>
<tr>
<td>- emotional value add</td>
<td>- creates upward price potential</td>
</tr>
<tr>
<td>- transfers event/image/prestige</td>
<td>- transfers to new artists</td>
</tr>
<tr>
<td>- allows for self-expression, individuality</td>
<td></td>
</tr>
<tr>
<td>- demonstrates and symbolises social status</td>
<td></td>
</tr>
<tr>
<td>- manipulates the perception of the artwork</td>
<td></td>
</tr>
</tbody>
</table>


Successful examples of brands in the art world can be found within museums. The Guggenheim or the British Museum feature the five characteristics of a strong brand (Caldwell, 2000): their name is well known, their exhibitions are perceived as being of high quality, their organisation is connected to significant features (collections, special events, location), their visitors are loyal and they have identifiable tangible as well as intangible assets (architecture, quality of curators).

Furthermore, this combination has proven that a strong brand does not – as critics might argue – initiate a process of “dumbing down” of a sophisticated product to suit a consumer-oriented approach. In fact, the effect of branding can be regarded as overall very positive. Various authors have pointed out that branding an art institution and its exhibitions increases visibility and visitor numbers and ultimately generates greater revenue (Caldwell, 2000; Mc Nichol, 2005; McLean, 1995). Moreover, artists such as Andy Warhol or Jeff Koons have demonstrably used the tool of branding successfully to promote them and their work.

Several communication tools can be useful in establishing a brand. Meffert and Bruhn (2006) highlight that when applying tools, attention must be paid to the special characteristics of the product. Since the value of art is intangible, communication efforts must be directed towards making a value visible, for example by underlining how well the show sold out and emphasising a huge demand for works (Günter & Hausmann, 2009). Furthermore, customers must be
frequently reminded of the whole value proposition and the benefit they get out of it, since it is not ultimately apparent to them.

In the following we will describe each communication tool in detail:

4.4.4.1 Advertisement / Newsletter / Direct Mailing

Advertisements, newsletters via email or post represent a key, yet traditional communication tool in most art galleries. From our data in 3.4 we see that almost every gallery employs these tools, which have negative impact on performance – possibly because extra revenues generated by these measures do not outweigh their cost.

A solution is therefore to tailor marketing messages, target the right customer with the according value proposition, employ a functional CRM technology and track customer status. In other words: apply a functional CRM system that implies an personalised approach to each customer, delivering to specific customer needs and wants. For example, in contact with the press and other conceptual art mediators galleries must provide all necessary data in order to simplify their work.

4.4.4.2 Personal Selling

Personal selling is the central communication tool for any gallery. Laukner (2008) highlights this importance in her dissertation and argues that especially in a people-centred industry personal interaction with the client is the most valuable instrument. Personal selling should not only be the owner’s key competency but that of the staff members, too. The documentary “Super Art Market” emphasises how gallerists use their personalities and own communication tools to sell artworks. In this documentary, we see Eigen+Art Gallery owner Harry Lybke trying to sell an artwork to collector by creating a sense of urgency, almost threatening the customers to buy it (Solomun, 2009).

4.4.4.3 Exhibitions

Exhibitions must be considered as packaging around the product they are selling. They are a key communication tool for selling. In museums, for example, blockbuster shows are the most frequently visited. Smyth (2005) clearly states: “big banners must be created in the product range to demonstrate clear and loud to the uninitiated, the suspicious, the apathetic and the downright fearful: this is for the likes of you” (p. 33). However, attracting attention should not come at any price. Smyth continues “This kind of programming is not about going to the standard programming cupboard, picking the most popular product and hoping it will attract people in. It’s about devising new product that is specifically designed to be obviously different so it can ‘break the trance’ and get on the public radar; spark curiosity, even controversy; convey and affirm ‘this could be for the likes of you’; and provide a platform for meaningful interaction and participation by new people” (p. 34).

A first step to doing so is naming exhibitions differently. Today, every gallery tries to find enlightening titles that should leverage the quality of the show. Often it is the artist that defines
the title, because it is part of the show. In fact, the title of a show is one of the key selling tools galleries have at their command. A title like “CHINA” has by far more impact on the crowd than “Liu Wei – Perception of Reality”. Framing exhibitions and giving them a title that reduces complexity and makes it easier for the public to understand what is going on and what to expect tears down barriers to entering a gallery and purchasing something.

4.4.4.4 Events / Art Fairs

With an average of 6-8 exhibitions, galleries organise various openings during the year. Every opening should be celebrated as an event where gallery owners host their guests. However, most gallery openings resemble each other. Wine and water are served, mostly to the same crowd every time. Sometimes the artist is present and is introduced by the gallery owner to some potential clients. A guestbook is out where the Vernissage crowd can leave names to be included in the newsletter. If anything is sold at the opening the gallery owners knew about in advance. It is very rare for an unknown buyer to appear on the floor and purchase an artwork at an opening.

In our new model openings play an increasingly important role. Galleries must be brave enough to use these gatherings as a selling platform. Red dots next to an artwork in combination with other symbols (music, sparklers, etc.) are useful tools to signal that an artwork has been sold. This creates a dynamic in the Vernissage crowd that might motivate an undecided buyer to close the deal.

Similar communication tools must be used at an art fair – according to our data, a key selling platform for art galleries. At art fairs, a gallery can really differentiate itself from international competitors and add value to its brand.

4.4.4.5 Word of Mouth in Communities

Word of mouth promotion is one of the most effective forms of advertising, but the most difficult to generate. Word of mouth promotion can be either positive or negative reporting on an event, but always in a personal and casual context (Helm, 2000). Helm (2000) highlights the effect of positive reporting on winning new clients. She argues that positive word of mouth reporting has such high impact because the sender of the information is considered to be trustworthy, independent, and similar/homogeneous to the recipient, and can answer questions.

Particularly in an industry where advertising budgets are limited, word of mouth promotion is of huge importance. So far, art galleries have not managed to find ways of attracting word of mouth promotion. The only tool they found for creating it was spectacular exhibitions or crazy artist actions. The following ideas present new ways to attract word of mouth promotion:

4.4.4.6 Integration

A very powerful tool to attract new customers to the gallery and create word of mouth promotion is to bind influential, art-loving people close to the gallery. This can either be done by getting them involved as a shareholder (which can involve trouble) or presenting them with a “Carte
Blanche”. A “Carte Blanche” is given to someone who is highly influential and well-connected, with an invitation to organise and curate a show in the gallery. This unique idea holds several advantages: (1) An influential person is closely tied to the gallery and allowed to do something unique and enjoyable, in the public eye. (2) This influential person will bring in a network to see the show, leaving the door open for the gallery to work the crowd and seed its name. (3) The press and the general public will enjoy this innovative and new idea of prominent people curating exhibitions and openly showing their taste. This idea has successfully been implemented in the museum “Martha Herford” and “Kunstmuseum St. Gallen” where collectors were invited to show their artworks. Allowing people from the outside temporarily to make the gallery “their” home adds greatly to the commitment of these people and their friends towards the gallery.

Openings present another chance to integrate people and win new clients because it is at opening that galleries can directly interact with potential clients and turn the attending crowd into a multiplier of its messages. A simple idea would be to hand out little bracelets or small giveaways (such as editions of artworks) that visitors take home or carry around. Visitors then act as multipliers of the messages of the gallery because these give-aways will initially always attract attention from others and motivate new people to come into the gallery. In particular the artist is asked to come up with creative but cost-efficient ideas that will create word of mouth promotion.

The concept of the garage itself is based fundamentally on networks and word of mouth. The garage should be a meeting and interaction place for the art scene, online and offline. It should become their playing ground where they interact and discuss art themes, a form of discussion platform. It is therefore important to include the art scene into this concept. Close collaborations with art students are favourable, as are collaborations with whole art academies. This will not only spread the brand across these people and their friends and networks but also across those that wish to be affiliated with the local emerging art scene.

The garage itself is based on the idea of a Kunsthalle with a small circle of benefactors, i.e. a “Friends Scheme”. These people donate a relatively small amount in the garage on a yearly basis to support this non-profit organisation that hosts upcoming and emerging artists. In return they receive an annual report that includes a statement of income and reports on past and upcoming exhibitions and offers primary access to upcoming artists. This scheme allows the gallery to systematically deepen its relationships with existing and potential customers and intensify their loyalty (Bussell & Forbes, 2006; Horan, 2003).

4.4.4.7 Participation

Another way to attract word of mouth promotion is via participation of clients. Customers should get involved in the creation and exhibition of art. For example, in the days before an exhibition, the gallery should not be closed to the public while the exhibition is built. On the contrary – it should open its doors and invite interested people to join the construction of the show. Similarly, customers should be invited to join an artist at work. Most artists fear studio visits; however, ambitious artists who want to be successful would do well to consider welcoming visitors to see
them at work, because those visitors could become future buyers. Alternatively, artists could
transfer their studios temporarily into the gallery space to attract passers-by.

Again, at this point it is worth noticing that every communication activity should be aligned with
the goal triangle of an art gallery. This means that communication efforts cannot be directed
solely towards maximising profit, but must to a certain extent hold up to ethical scrutiny and
keep the artistic value of the value proposition in mind.

The following table summarises all details of the communication concept in reference to each
customer category:

**Table 33: Examples for a Communication Approach for Each Customer Category**

<table>
<thead>
<tr>
<th>Category</th>
<th>GARAGE:</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARTY GROUP</td>
<td>Advertisement:</td>
</tr>
<tr>
<td>(Art students &amp;</td>
<td>- only online newsletters</td>
</tr>
<tr>
<td>their friends,</td>
<td>- blogs</td>
</tr>
<tr>
<td>+ conceptual art</td>
<td>Personal selling:</td>
</tr>
<tr>
<td>mediators, i.e.</td>
<td>- selling not the focus, contact/exchange highly important</td>
</tr>
<tr>
<td>critics, press,</td>
<td>Events:</td>
</tr>
<tr>
<td>museum staff,</td>
<td>- events created through show, no additional concept needed</td>
</tr>
<tr>
<td>employees of art</td>
<td>Integration:</td>
</tr>
<tr>
<td>business service</td>
<td>- collaborate with art academy</td>
</tr>
<tr>
<td>providers)</td>
<td>- win influential people from scene to curate a show</td>
</tr>
<tr>
<td></td>
<td>Participation:</td>
</tr>
<tr>
<td></td>
<td>- allow visitors to see creation of show</td>
</tr>
<tr>
<td></td>
<td>- allow visitors to participate in it</td>
</tr>
<tr>
<td></td>
<td>➔ focus on word of mouth promotion in communities</td>
</tr>
</tbody>
</table>

| GALLERY:                                                        |
| - online newsletter                                           |
| - highly selective, personal invitations only if strictly relevant|
| - press folder sent via email to press                         |
| Personal selling:                                              |
| - selling not relevant, introduction to artist more important   |
| Events:                                                        |
| - present media with an innovative and clear concept           |
| Integration:                                                   |
| - win influential curator or critic to curate show             |
| - collaborate with art newspaper, write column for it          |
| - hand out give-aways                                         |
| Participation:                                                |
| - invite them for studio visits                               |
| - allow them to see creation of show                          |
| - allow them to participate in it                             |

| ROOKIE GROUP        | GARAGE:                                                                 |
| (Newbies            | See above with heavy focus on personal selling                          |
| +                  | GALLERY:                                                                 |
|                   | Advertisement:                                                          |

<table>
<thead>
<tr>
<th>Category</th>
<th>Approach</th>
</tr>
</thead>
</table>
art connoisseur)
Those that have never visited an art gallery, i.e. bankers, attorneys, consultants, corporate employees, etc.)

<p>| | |</p>
<table>
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<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>online newsletter</td>
</tr>
<tr>
<td></td>
<td>highly selective and only if relevant personal invitations</td>
</tr>
<tr>
<td>Personal selling:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>selling highly relevant, introduction to artist</td>
</tr>
<tr>
<td>Events:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“Edutainment” – entertainment and education</td>
</tr>
<tr>
<td></td>
<td>use signals (red dots, sounds, signs) to create dynamic atmosphere</td>
</tr>
<tr>
<td></td>
<td>frame shows to reduce complexity and make it easier for them</td>
</tr>
<tr>
<td>Integration:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>win influential HNWI to curate show and bind to gallery</td>
</tr>
<tr>
<td></td>
<td>hand out give-aways</td>
</tr>
<tr>
<td>Participation:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>invite them for studio visits</td>
</tr>
<tr>
<td></td>
<td>allow them to see creation of show</td>
</tr>
<tr>
<td></td>
<td>allow them to participate in it</td>
</tr>
</tbody>
</table>

TRADITIONAL GROUP
(art lover + investor dealer-collector + corporate collector)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GARAGE: See above with heavy focus on personal selling</td>
</tr>
<tr>
<td></td>
<td>GALLERY: See above with heavy focus integration and participation</td>
</tr>
</tbody>
</table>

**Case Study**

Heinrich Richter knew that his budget for promotional activities is very limited. His communication efforts included three main features: first, he sent out invitation cards to almost 1,500 addresses (which cost him €1,000 in print, postage, and one employee’s time). Secondly, he sent out an online newsletter to around 2,500 addresses. Third, very occasionally he placed an ad in art or luxury magazines. Richter suspected the sum total of his efforts tended towards zero.

Together with Richter we redefined his communication concept. His target group was the Rookie group to whom he wanted to offer an “edutainment” programme with interesting, social events while presenting quality art. At first, we stopped the newsletter because it was too expensive and had shown little or no impact. We abandoned advertisements completely. Instead, we kept the online newsletter, but also sent out personal invitations to a select group of roughly 100 customers. We then teamed up with an interior designer who forwarded all news to his clients, at no cost. A very distinctive measure was that Richter tried out the “Carte Blanche” idea and invited a celebrity to curate a show in Richter’s gallery. The effect was enormous: not only did Richter get massive media attention, but he also generated very valuable contacts because the celebrity brought in his own network. Finally, Richter changed his opening hours. Rather than opening from 1pm-8pm, he now opens from 3pm-10pm (Tues-Sat). Almost every Sunday he also opens his gallery from 10am-4pm and sometimes offers Sunday brunches etc. Since the concept aligns with his target group and their value proposition, the effect of all measures has proved to be extremely successful.
Urs Ruetli applied exactly the same communication concept as Richter originally did: online and offline newsletters and occasionally ads in magazines. He understood that this concept was no longer enough.

Ruetli’s target group is also the Rookie group but with less focus on social events and more on content. At first, we abandoned the expensive newsletter and replaced it with personal invitations to only one in ten of his entire database. Ruetli then teamed up with the local art magazine which promotes his events in their regular newsletter, without charge but with a guaranteed interview with the artists (who always attend). Ruetli will also be featuring the concept of the “Carte Blanche”, but rather than giving it to a celebrity or major collector, he plans to hand it over to the local art museum director. Again, so far the concept has proved to be successful.

Phrasecut, in contrast to Ruetli and Richter, has a larger budget for communication efforts. However, rather than spending it on useless tools such as invitation cards, Phrasecut applies a very restricted, highly exclusive approach. For example, Phrasecut invites important clients to artists’ studios. Phrasecut also invites clients and potential clients to the set-up of a show. Clients are then allowed to talk to the artist, ask questions about the set-up and sometimes even get actively involved in the construction of a show. After this the invited guests and the artist have dinner together in an exclusive restaurant. This concept proves highly successful, because it engages clients and brings them closer to the artists and gallery. Without doubt, Phrasecut’s communication methods create a unique brand that stands for quality and exclusiveness.

4.4.5 Revenue Concept

We have seen from our data that the revenue concept is statistically and economically not significant and even slightly negative. This could be because the revenue concept is very similar from one gallery to another. Most revenue streams are limited to the primary market, with only a fraction of the galleries observed operating in the secondary market (18%) despite the fact that it seems to generate the highest profits. Additionally, no income is generated through extra services. When it comes to costs, rent and participation fees for art fairs present the highest cost factors. Galleries must therefore enhance their revenue model by identifying innovative new income areas while offering attractive pricing models and cutting costs through operational efficiency.

In order to structure our thoughts we will analyse the three components of the revenue equation and introduce ideas to improve them. When profit = revenue minus costs (and revenue = quantity x price), we will start with quantity:

4.4.5.1 Quantity

Diversification

Our new model is based on a three-pillar structure. Galleries must be active in all three markets in the life-cycle of an artist in order to secure a constant revenue stream. Focusing only on the primary market, as most galleries do, brings high risk. Considering the fact that competition is at its highest in the Contemporary market, galleries are exposed to a dynamic, yet highly volatile market. Galleries must therefore extend their revenue model to include the secondary market.
Although it will be difficult to build up competencies in this market our data shows that galleries operating in this market are performing better.

**Multiplication**

Galleries do not make use of agents or external sales representatives. Galleries should engage in relationships with agents or other well connected people. If a sale results, the agent will get a 10-20% commission. Agents can be anyone, ranging from bored but influential socialites to industry CEOs. The agent concept is therefore similar to a “friends recommending friends” scheme. The advantages are that agents come at no cost to the gallery owner. Furthermore, they usually have a stronger relation to the brand and serve as a free multiplier of the message. Again, it will be crucial not to oversize the agent project.

**Extra services**

The gallery owner, as art market expert, can offer expertise as a speaker at events. An increasing number of publications on the art market, documentaries and art management degree courses demonstrate the public’s interest in the art market. The gallery owner can satisfy this interest by offering to speak at conferences or corporate events, or perhaps also by organising a lecture series. Titles of these lectures could be “Management of a gallery”, “How to make money in the art industry”, “Stories from a gallerist”, etc. The advantages are that circuit speakers earn an income, while participants will pay a fee for events actually staged by the gallerist. Furthermore, regular appearances at talks and events establishes a gallerist as someone who stands for expertise, transparency and trust.

Galleries can also offer extra services surrounding the product, such as home delivery and hanging of artworks, services that most buyers are willing to pay for.

Moreover, the gallery could rent out its exhibition space. A gallery with white walls and regularly changing art offers the optimal space for special events, such as dinners, photo shoots, talks, private receptions, etc. Clients enjoy the special setting and the atmosphere and reputation that accompany the image of a gallery. The advantages are manifold: the gallery cannot be changed or artworks removed, so there is minimal disruption. Furthermore, the gallery gets access to new potential clients, for example attendees at a private dinner in the gallery organised by a bank. Finally, the gallery receives an additional income stream at minimal cost.

It is, however, highly important to keep organisational and administrative duties to a minimum. This might be a reason why so few galleries employ this model. Our data shows that only a fraction of galleries are offering themselves out as a venue. The gallery should therefore pair up with business partners (for catering, conference technology, etc.) but keep the pricing model as simple as possible.
Artist studios

Interestingly, galleries classify artists as their second biggest competitor. This is because artists sell through their studios and hide this income from their galleries. Galleries must make these revenue streams accessible through punitive contracts (see 4.4.9.1).

4.4.5.2 Prices

Another interesting and still underused possibility for increasing profits is prices. Prices are a fundamental but completely underestimated tool in the art industry today (Günter, 2008). Price differentiation, price bundling and price variation are ways of changing the pricing structure.

Price differentiation

Price differentiation is based on the idea that similar products are sold at different price levels by the same provider (Konrad, 2004). Price differentiation can be executed using several criteria including location, time, personality of the buyer or quantity.

(1) Location: Based on the location of the sell the gallery can charge different prices. An artwork that is shown in the context of a garage exhibition can be sold for less than the same artwork shown in the gallery. This adds to the idea that the garage is a place for spotting upcoming artists and making a bargain, while showing in the gallery indicates a higher demand for this artist. The extra charge at an art fair is based on similar logic.

(2) Time: Galleries can increase the number of transactions by offering a special reduction on artworks in “Happy Hours”. Implementing a Happy Hour for art buyers can foster impulse buys.

(3) Buyer demographics: Our market segmentation allows for detailed and specific offers to any group. A gallery could offer the Arty group or Rookie group special offers for their art purchase. For example for every art buyer under 30 in these two categories a reduction of 15% can be granted.

Advantages of price differentiation are that quantity of output can be enlarged. However, caution must be paid that price differentiation attracts new customers, rather than giving artworks to a cheaper price to already existing clients.

Price bundling

Frequently used by galleries, price bundling is the notion that various artworks are bundled together in a package and sold at a total price that is lower than the sum of its parts. Art galleries can use price bundling even more effectively when they link it to a timeframe, with maybe a 20% reduction on a purchase – but with a deadline.

Price variation

Price variation means to vary with the price of a given product (Konrad, 2004). This is often done in a sales period when prices for all products are reduced.
There are a number of reasons why galleries have traditionally neglected the power of price variation. An artwork has a certain price and cannot be traded as a commodity where prices can be changed frequently. It is also dangerous to reduce an artwork’s sale price as this might have a negative impact on the artist’s reputation, and galleries should consult their artists first before organising an exhibition with artworks at bargain prices. The advantages, on the other hand, are that media interest will be huge due to this unconventional offer and that the inventory can be cleared of unsold items.

4.4.5.3 Costs

Gallery room

Galleries, 85% of which are in prime locations in major cities, today consider rent as the highest cost on their balance sheet. Vernissage guests and passers-by form the biggest groups of visitors to a gallery. Real potential clients do not just come by. They organise their visits in advance and don’t just show up randomly in a gallery. Therefore, galleries must ask themselves why they maintain expensive space in prime locations when the benefits are relatively small. Our new model consequently reduces fixed costs via three options:

1) Renting rooms when needed: The garage concept can be rolled out in a variety of rooms that are cheap to rent. The gallery can follow a similar concept with more exclusive rooms, rented only for the length of the exhibition.

2) Renting cheap rooms: Alternatively, a room can be rented but not in the city centre. Industrial areas usually form a cheap yet inspiring and attractive, often fashionable, alternative for showing art. Moreover, parking space is better than in the inner city: apart from the artists, almost every potential buyer drives a car so public transport connections are less relevant.

3) Sharing: galleries can share their locations with partner galleries. This reduces costs for rent and attracts additional attention to the location. Attention must be paid to draw clear lines between the galleries involved. Each gallery must keep its own profile if a merger is not envisaged.

Artists’ share of revenue

Artists play a big role in the revenue concept of any gallery, with 50% of a gallery’s revenue going to artists. However, sharing the revenue does not take into account the increasing costs of art fairs, strong global competition and marketing efforts. Our new model therefore proposes a revised ratio. Ratios should vary between 30% and 70%, depending largely on the maturity and popularity of the artists. We will later elaborate on this idea in the portfolio artist matrix.

Flexible salaries

Art gallery employees should be paid a flexible salary. While still receiving a base salary, they get a bonus on top, depending on the size of the revenue they generated. Particularly in times of
crisis and low-revenue years, salaries can remain low, but the employee is still offered a powerful incentive.

Case Study

When Heinrich Richter looked at his yearly balance sheet, two items were at the forefront of his mind. First, his costs were extremely high and were mainly driven by the rent of his gallery. Second: he thought about ways to increase his revenue.

Together with Richter, we first targeted the revenue side. Apart from diversification through the three-pillar structure, we decided to sub-let his exclusive gallery rooms to a private art foundation for the months of June to August, i.e. three months per year. Sub-letting proved successful, as not only could they exploit synergies with the foundation (adverts, etc.) but Richter also received additional income which almost halved his yearly rent. Richter also rented out the gallery room short-term (for 3-7 days) to a clothing manufacturer that used the gallery rooms as salerooms.

We then targeted the cost side. We first introduced the idea of a flexible artist’s share. For some artists we lowered their share to only 30%, for others we increased it to 60%, based on the artist portfolio matrix. Moreover, we reduced the fixed salary of Richter’s employee by implementing a flexible salary modus with a fixed salary and a bonus depending on revenue.

Interestingly, with Ruetli, we found very similar problems.

Working together, we targeted the revenue side by developing the concept of “Rent a gallery”. We paired up with two external catering companies to rent out Ruetli’s gallery rooms for dinners with up to 40 people. To keep administrative tasks to a minimum, if Ruetli received an inquiry for a date when the gallery was available, he would refer the client to one of two catering partners. In the end, the client received two bills, one from the gallery for the rent, and one from the caterer.

Targeting the cost side, we implemented a gallery-sharing model. We identified two partners to share the gallery space with Ruetli. The sharing model had three advantages: (1) Ruetli and his two partners all worked to promote the gallery location as a hub for inspiration and creativity and thereby attract more attention. (2) The diversity of three galleries’ artist portfolios produced some interesting and inspiring curatorial shows. (3) The main advantage of their joint appearance was the cost savings. Together they saved on rent, employees (they employed one full-time gallery assistant between them), advertising, insurance, food and drinks at openings, etc. Ruetli was thereby able to cut costs for the gallery administration to just a third of their previous level.

In order to increase the revenue, Phrasecut used the tool of multiplication. Over the years he had carefully approached a group of three individuals all of whom had a great network, were affiliated to art and supported the gallery programme. He offered them an attractive 20%-25% margin on the selling price when they referred one of their friends to the gallery. This concept proved to be very efficient because these “agents” actually worked full-time outside the arts and didn’t depend on this income. In fact, they regarded it more as fun than work. Furthermore, Phrasecut used his brand and the gallery platform to rent out his space every year to a high luxury company to present their newest car. Finally, Phrasecut generated additional revenue through talks or workshops to which he was invited as guest speaker, talking about gallery management and his experience in the art market.

On the cost side, Phrasecut had lowered his fixed costs to a minimum as he was paying comparatively little rent. Furthermore, the gallery implemented a flexible salary system to keep salaries low. Because his gallery director was solely responsible for the gallery, the revenue generated in the gallery could be directly attributed to him.
4.4.6 Growth Concept

Our results show that the growth concept is economically and statistically (at the 5% level) significant. Surprisingly – together with the communication concept – it holds a negative sign. It seems that growth concepts do not vary extensively between art galleries, yet it is questionable if growth concepts actually exist. Hence, a growth concept needs further analysis and elaboration in order to contribute positively to art galleries’ profits.

Why growth?

Art galleries today are very small enterprises with few employees and little revenue. Only a fraction own subsidiaries (13%), while the vast majority operate out of their galleries with no other national or international representation. There are, however, some rare examples of galleries that have several subsidiaries and continuously grow. Gagosian, for example, the world’s largest art gallery, currently has 12 galleries worldwide, while the Zurich gallery Hauser & Wirth currently operates from five offices around the world (although they are not yet in Asia).

Their motivation to attempt growth can be separated into two categories (Hausmann, 2009): (1) Initially, they want to meet economic goals, such as leveraging revenues, increasing the margin, profiting from currency differences, etc. (2) Secondly, there are psychological goals. Galleries operating internationally are closer to their customers and artists, create customer satisfaction due to their international presence, increase brand awareness and can react faster to trends. Moreover, their international presence lends galleries an aura of professionalism, exclusiveness and international reach that only the best galleries in the world possess.

How to grow?

In order to foster growth galleries need the necessary resources and a clear determination to grow, stated through their strategic mission and implemented through their goals. This might be the reason why so few galleries fail to grow: they either do not command the resources (such as the infrastructure, employees and budget) or haven’t identified growth as a goal in the business strategy. A gallery that does want to grow can follow several different ways, and here we will only introduce a selection:

1. Enter new markets: Galleries can enter new markets, for example, in a different country (China for example) or in a different city in the same country. Possible ways to enter these new markets can be through partnership with another gallery. As we will later demonstrate collaboration with an existing gallery on the basis of sharing the gallery space or exchanging artists presents a useful way to enter a new market without investing too much capital. Another possible entry solution is to participate at an art fair. This helps in meeting new clients, although it can be difficult to keep in regular contact. Finally, the most basic (and resource intensive) way is to rent a gallery space and open a gallery.
(2) Extension of share of wallet: Galleries can try to grow by extending their share of their client’s wallet, for example by offering extra services over and above the existing product or developing interesting pricing models.

(3) Franchising: Franchising is a commonly applied approach in the business world, yet a completely new concept to the art world. Once a gallery has established a decent group of artists, the gallery can offer its programme and artists to a franchisee. The franchisee will be allowed to change the programme only marginally, for example by adding a local component to it. At international art fairs, the franchisor will participate to promote the artists. This concept has, to the author’s knowledge, not yet been applied. It would be interesting to see its application.

Case Study

For Gallery Richter and Gallery Ruetli, growth was a long-term target (15-20 years); neither had developed a growth concept, or made a conscious decision to make growth part of their strategy. Both owners agreed that it was necessary to have all internal resources and capabilities available before thinking of growth.

We therefore decided to develop a long-term growth agenda for both galleries, following a more or less project-based approach. This agenda contained several initiatives which mostly dealt with their internal structure. At first, we implemented the three-pillar structure. The success of this implementation should be measured by increased profit (prerequisite 1). While this might take up to several years, both gallerists should develop ideas how to grow. Interestingly, both galleries favoured the idea of entering new markets via a combination of art fair visits, as well as cooperation with a local gallery. Richter targeted Asia, Ruetli targeted London, because both saw potential in these areas and had existing clients in the countries (prerequisite 2). For prerequisite 3 we agreed that both gallerists should identify two to four possible cooperation partners whom they could work. These relationships should be tested over collaboration efforts with artists etc (see collaboration). Only when those requirements were fulfilled could both galleries enlarge their footprint.

Interestingly, Phrasecut’s owner was completely against growth. He argued that only Asia might be interesting for him because he covered Western Europe through extensive participation at art fairs. With Asia, however, Phrasecut believed that it would still take about 10 years until steps in this direction could be taken. Also Phrasecut was not sure if growth as a gallery was fruitful, because artists’ international exhibitions were enough to enlarge the footprint.

4.4.7 Competence Configuration

Our data shows that the competence configuration is neither statistically nor economically significant and is even slightly negative. A possible explanation is that galleries’ competencies do not seem to have an impact on profit. It may be that competencies do not differ much between galleries, or are falsely set. 99% rank their social and selection competency above average. Their management skills, however, score only an average value. It seems that galleries must gain competencies in management, marketing and selling in order to achieve the perfect combination between the value proposition and skills.
Today’s art managers are faced with a dual challenge – like the goals we identified for galleries in 4.3. On the one hand, they must reach out to the market with artistically excellent products and create understanding for them. On the other, they must look inward and professionally run their management and marketing approaches in a changing environment. However, while their work demands a balance of the two competencies, key personnel in art organisations are primarily experts on the artistic side and are only secondarily managers (Dimaggio, 1987). Our new model emphasises that this must change. In order to successfully manage an art gallery in the future, employees must possess management knowledge. This requires “skilled managers who are familiar not only with the arts but also with sophisticated management techniques” (Weinstein & Bukovinsky, 2009, p. 47). Employing art history students, as is frequently done today, is therefore no longer the only option since they do not command sufficient management skills. Weinstein et al. (2009) point out that the focus has shifted from artistic concerns to the quality of the organisation’s management.

When trying to find new employees the owner should consider three dimensions as selection criteria: art knowledge/passion, managerial skills, and social competence. This helps to clarify expectations of the new employee and to evaluate potential job applicants more effectively (Schaper & Volery, 2007). Hence, it might be more useful to employ a more mature (and more expensive) marketing manager that will bring in a network and has the social competence to sell an artwork. Caldwell (2000) clearly states: “It was no accident that the director of the Guggenheim Museum, New York, had a master’s degree in business administration and the director of the British Museum had a doctorate in chemistry” (p. 28).

The salary is an important issue in attracting suitable candidates. It is common knowledge that the art industry pays a lower salary than other industries. Consequently, the best educated people choose another industry to work in. Byrnes (2008) argues that compensation is not always a major motivator for those working in the arts and culture field. There is often a reliance on the passion factor, as in, “This work is my passion and I am not in it for the money.” Most use the reputation that comes with a job in the arts as compensation for a very low salary. Art gallerists willing to attract excellent people must understand that they are competing with firms like LVMH or P&G. Consequently, their salary propositions must be similarly attractive. Art galleries have the advantage over firms like LVMH that they can create broader and more attractive compensation packages. While the base salary can be comparably low, they can offer a bonus (based on revenue generated), flexible working hours, low hierarchy, an impressive job title, access to great people and a “sexy business”. Byrnes argues: “People develop a perceived worth and value which they assign themselves and to their place in an organisation. That intrinsic value is tied very closely to intrinsic motivation. Arts managers therefore need to be sensitive to the different motivational thresholds of their staff” (Byrnes, 2010, p. 4).

In order to find new employees gallerists should use only those channels that potential employees may consider. Firstly, there are traditional tools such as newspapers and websites. Gallerists should insert their ads only in newspapers that approach their target, i.e. not highly
specialised art newspapers, but more general business-focused magazines or websites. A good idea is also to search through alumni networks of business/marketing faculties of universities. Secondly, competitors or employees of marketing departments in other industries might have done the research and spotted an excellent candidate. Poaching a valued employee from a competitor could therefore be a good option. Finally, it might be useful to employ someone from the inner circle (family and friends). A study in the US reports that nearly 100% of the art institutions (all non-profit) indicate that their preferred recruiting methods are through formal and informal networks of colleagues (Nonprofit HR Solutions (NPHRS), 2010). The key advantage is that these people are familiar with the purpose and have a greater commitment to the long-term survival of the firm.

The following table summarises some key characteristics of a gallery’s employees:

**Table 34: Key Characteristics and Description of Gallery Employees**

<table>
<thead>
<tr>
<th>Division</th>
<th>Job Description</th>
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<tbody>
<tr>
<td>GARAGE</td>
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<td></td>
<td>- Job title:</td>
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<td></td>
<td>o Director</td>
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<td></td>
<td>- Reporting</td>
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<td></td>
<td>o Directly to CEO of the gallery</td>
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<td></td>
<td>- Length of employment:</td>
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<tr>
<td></td>
<td>o Is employed for 2-4 shows, yearly, every 2-3 weeks</td>
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<td></td>
<td>o A contract is signed</td>
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<td></td>
<td>- Responsibilities:</td>
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<td></td>
<td>o Curate 2-4 shows a year with upcoming and emerging artists</td>
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<td></td>
<td>o Is completely and solely responsible for planning, organising, curating and selling the show and surrounding events</td>
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<td></td>
<td>o Artists must</td>
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<td></td>
<td>- be under 30 years</td>
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<td></td>
<td>- have only marginal experience on the art market (little record with galleries)</td>
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<td></td>
<td>- be willing to agree to the concept of the garage</td>
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<td></td>
<td>- must be cutting edge and demonstrate high potential</td>
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<td></td>
<td>o Communication tools:</td>
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<td></td>
<td>- Must be cost-effective and will be conducted by the director and supporting staff (if available)</td>
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<td></td>
<td>- A blog can be written or other use of new technology introduced as means of communication to reach peer group</td>
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<td></td>
<td>- Networks need to be developed and supplied with information</td>
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<td></td>
<td>o Annual report</td>
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<td></td>
<td>- must be produced that includes a statement of income and reports with pictures of past and upcoming exhibitions,</td>
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<tr>
<td></td>
<td>- is sent on a yearly basis to entire community of previously exhibited artists and circle of benefactors</td>
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<tr>
<td></td>
<td>- Budget</td>
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</tbody>
</table>
- Job title:
  o Director
- Reporting
  o Directly to CEO
- Length of employment:
  o For three years
  o A contract is signed
- Responsibilities:
  o Is completely and solely responsible for planning, organising and selling, i.e. managing the gallery and surrounding events
  o Artist selection/curating
    - In cooperation with the CEO
    - Based on “artist portfolio analysis”
  o Communication:
    - Must be cost-effective and will be conducted by the director and supporting staff (if available)
    - According to communication concept and in line with profile of the gallery
- Budget
  o Needs to be signed by the gallery owner for each show
- Salary
  o Yearly base salary plus bonus (based on revenue generated)
- Profile
  o Marketing or business degree with 3–4 years’ work experience, preferable in luxury industry or consumer goods
  o Entrepreneurial mindset
  o Social skills, outgoing, dynamic
  o Fluent in English
  o Excellent computer skills (Mac, Office)
  o No experience in art market needed

- Job title:
  o CEO
- Responsibilities:
  o Is completely and solely responsible for running the Fine Art trade
  o Artist selection/curating
    - In cooperation with the CEO
    - Based on “artist portfolio analysis”
Communication:
- Must be cost-effective and will be conducted by the CEO and supporting staff (if available)
- According to communication concept and in line with profile of the gallery

Profile:
- Combination of management and artistic skill with ethical working behaviour

### MARKETING CONTROLLING HANDLING

- **Job title:**
  - Support manager (marketing or controlling or handling)

- **Reporting**
  - Directly to CEO of the gallery
  - To involved director

- **Length of employment:**
  - For X years
  - A contract is signed
  - Freelance

- **Responsibilities:**
  - Marketing
    - Is responsible in cooperation with the involved director for planning, organising and executing marketing activities
  - Controlling
    - writing/paying bills, balance sheet and income statement, liaising with the tax department and controlling commission reports
  - Handling
    - Hanging of a show, transportation preparation and the actual transportation of artworks, delivering the artworks to the client and hanging

- **Budget**
  - Needs to be signed by the gallery owner for each activity

- **Salary (depending on contract, either outsourced or employed):**
  - Project-based salary
  - Yearly base salary

- **Profile**
  - Marketing expertise
  - Preferably expertise with luxury product
  - Graduate student with Marketing Diploma or experienced marketing professional

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**Case Study**

Phrasecut highlights the importance of his employees as the most relevant success factor. In contrast, Ruetli and Richter always considered the role of their employees more as a secretarial job with very little responsibility. Their employees shared the same background: art history degree with no management education. Similarly, applications (which all three galleries receive almost daily) are all very similar: most of them are female with a degree in art history and experience as an intern in auction houses, art museums or art galleries. Both gallerists took on board the idea that the success of their new organisational model depended on the competence of their employees.
In both galleries, we therefore designed a formal recruiting process to find a new employee for the position as gallery director. We decided that our new employee should possess the following qualifications:

- Managerial skills (entrepreneurial mindset, experience in managing a luxury good)
- Art knowledge/passion (every employee needs passion for the product)
- Social competence (managing an art gallery is not only about structuring it but also communicating with clients)

In order to find a suitable candidate we decided to use the following channels:

- Ad in the newspaper (only very selected, not in art magazines)
- At marketing faculties (PhD or MBA graduates of regional universities)
- In internet agencies (in the category Marketing, Luxury Marketing, Sales, Event Manager)
- Through personal contacts (in the luxury industry AND consumer goods)

The feedback on this job posting was enormous. While 60% of the applications showed few management qualities, we were able to attract several candidates who had no or only very little experience in the art market but great management knowledge. The best channel proved to be marketing faculties that forwarded the job offer to alumni, as well as personal contacts in the consumer goods industry. In the end we invited six candidates to the Richter gallery and seven to the Ruetli gallery for interviews, resulting in one appointment at each. The chosen candidates commanded an excellent set of qualifications. Both were in their mid-30s, worked for a large concern in the consumer goods industry, had a diploma in marketing/management and wanted to re-orientate in the job market. They lived in the same city as the gallery and brought in their own network. Neither had any experience in the art industry whatsoever, yet both had an interest in art. In both cases, the motivation to apply for the job was to enjoy full responsibility, low hierarchies, a bonus-driven salary, flexible working hours and the reputation that comes with art.

Overall, after almost a year in the position, it can be said that the non-art related background combined with management knowledge proved to be a key advantage. Both are very well established as gallery directors, quickly adapted to the industry and completely run the show.

The advertisement looked like this:

```
Marketing and Event Management in Luxury Industry

Employer:
The gallery is one of the leading art galleries in the city with a contemporary programme, as well as some exclusive and prominent clients

Responsibilities:
- Job title:
  - Director
- Reporting
  - Directly to CEO
- Responsibilities:
  - Completely and solely responsible for planning, organising and selling, i.e. managing the gallery and surrounding events
    - Advising and identifying clients
    - Approaching them with targeted marketing initiatives
    - Creating and developing events that attract a broad audience
```
4.4.8 Cooperation Concept

Our data shows that the cooperation concept is neither statistically nor economically significant, although slightly positive. This might arise from the limited cooperation exercised by most galleries. Another possible explanation is that most of the impact of cooperation is captured by the organisational concept, to which it is closely related (.82). The cooperation concept therefore plays a substantial part in our new gallery model. In fact, it is one of the central ideas of the new model that galleries actively engage in cooperation. Galleries must engage in strategic cooperation with art and non-art institutions to establish long-term relationships. In the following we will present ideas for cooperation partners:

The garage should use its status as a non-profit organisation to promote its interests. Cooperation partners should be mainly recruited from the art scene, i.e. art institutions and the art community – art institutions are excellent cooperation partners, because they are at the epicentre of the emerging art scene. For example, an art class could be invited to hold exhibitions regularly. The active art community should also be brought on board as cooperation partners, with perhaps blogs and on/offline art magazines involved to regularly report on the exhibitions in the garage. Additionally, the director of the garage should bring in a personal network of artists and friends that will help to spread the message and create excellent word of mouth promotion.

Another potential cooperation partner is the circle of benefactors. Literature suggests that these “friends” should be listened to and their ideas should be developed (Bussell & Forbes, 2006; Hill, O'Sullivan, & O'Sullivan, 1995). Once they get actively involved the garage can profit from their potential.
The gallery must consider itself as the centre of a network of partners, and its main focus should be to engage in cooperation those partners who are excellent in their fields. Firstly, colleagues and other art galleries are primary partners. This partnership involves most aspects in the gallery business. For example, mutual openings can attract new clients. Art fairs can be visited together to cut costs. Alternatively, artists can be built up together, for example by showing them in one city first and then transferring the entire exhibition to the next city. Preferably, the two galleries should be from different countries so that both can display the artist exclusively in their home market. Secondly, galleries should engage in close cooperation with other companies that target similar clients. These could be luxury brands, such as Gucci or Prada or the famous jewellery store in the city, private banks, large banks, yacht sellers, car dealers, restaurants, etc. – basically all companies that the galleries’ clients are familiar with. Thirdly, galleries should form close ties with an HNWI who has already had some contact with the gallery. For example, the “Carte Blanche” idea will present galleries with access to a whole new network that could be won as new potential clients. Finally, the most important cooperation partners are the artists themselves. They are the group that needs the most attention and they are the most valuable partners in the network. For this most individual, diverse and essential group, personal approaches should be designed that best suit each artist (see 4.4.9.1.).

For Fine Art, cooperation is crucial to enlarge the network of suppliers and buyers. Cooperation partners should preferably be art professionals, such as established art galleries, auction houses or dealers. Here, it will be of the utmost importance to engage in cooperation only with partners that are already established in the business and have quality contacts.

Engaging in cooperation is difficult and can be dangerous. Hence, the gallery must manage expectations right from the start. The cooperation will only survive if both sides feel that their expectations are met. It might therefore be useful to sign contracts or at least state what both side’s expectations and wishes are.

**Case Study**

Heinrich Richter realised that he could considerably widen his own network through engaging in cooperation and partnerships. However, he was reluctant to do so, since he had had a bad experience with cooperation and did not know which firms he could cooperate with.

Together with Richter we developed a cooperation concept for each of his three pillars:

For the garage we addressed one professor of the nearby academy and invited him to hold an annual exhibition with his class in the garage.

For the gallery we teamed up with a local designer and held mutual openings and other events (such as private dinners, artist studio visits) where both sides could present their works. This collaboration proved to be highly lucrative for everyone, because the interior designer and the gallerist recommended each other. Furthermore, Richter engaged in cooperation with a large global fashion company. Every year, in parallel with an art fair in Asia, they organised an art show in the showrooms of the fashion house. The invitations were channelled through the official VIP Programme of the art fair. Additionally, we collaborated with an HNWI who was given a “Carte Blanche”.

Finally, for the Fine Art, Richter understood that trustworthy contacts are the key resource to successfully working in the secondary market. In order to enhance his network he worked...
together with a set of dealers who were active in the secondary market. After almost six months of intensive work he decided to collaborate closely with one business partner.

Urs Ruetli had very similar problems. We therefore decided to develop a tailor-made cooperation concept.
For the garage we worked intensively together with a local art magazine. This magazine reported regularly on every garage exhibition.
For the gallery Ruetli collaborated with two international galleries, one in London, one in New York, whom he met at an international art fair. They frequently exchanged their artists (without commission for the primary gallery). Furthermore, Ruetli is planning to present a “Carte Blanche” to an HNWI in his city.
For the Fine Art section Ruetli is currently trying to build up a network of partners to establish the trade. He is now in contact with a relatively small auction house.

Phrasecut emphasises the importance of collaboration. The gallery emphasises, however, that cooperations are only successful when they are on a long-term basis and can be administered at low organisational expense. Phrasecut therefore only engages with strong and reliable partners who are willing to engage in lasting relationships.
For the garage the gallery sponsors young exhibition spaces by giving them money for project-based shows.
For the gallery, it cooperates with other leading international galleries to exchange artists (without commission). Furthermore, it has several arrangements with international luxury companies who rent its rooms or work on projects with its artists. Phrasecut is highly selective in working with luxury companies since sometimes decisions and management structures are complex and bureaucratic and take up too much of his time.
For Fine Art, Phrasecut collaborates intensively with a defined set of other galleries and major auction houses. Particularly if clients wish to sell some of their collections, Phrasecut acts as intermediary between client and auction house. Or if auction houses wish to sell an artist Phrasecut represents, they offer the gallery first refusal.

4.4.9 Coordination Concept

Our data shows that the coordination concept is statistically insignificant, although at face value relatively large. In particular, the coefficient increases when we control for the type of art sold. This suggests that the coordination concept becomes more relevant when the gallery engages in the secondary market; not a surprising result, because a gallery dealing in the secondary market is confronted with several legal issues when dealing with buyers and suppliers of highly valued artworks. Hence, galleries must sign strict and binding contracts with all artists and partners and continuously revise this in relation to cooperation partners. The coordination of the network must take into account the time and transaction costs involved in operating the network. Depending on the specificity and rounds of interaction, cooperation can take the form of explicit and implicit contracts.

In the garage coordination is not as relevant as in the gallery and the Fine Art division. However, as with all artists and cooperation partners, written agreements should be formulated in order to manage both sides’ expectations.

For the gallery a coordination concept is very important.
In relation to other galleries, depending on the content of the cooperation, detailed cooperation contracts are useful. In particular, when artists are exchanged, contracts are critical to define important issues: who covers transport costs? What share does the primary gallery get? For how long will the artworks remain with the gallery? Resolving these issues in advance helps to foster lasting relationships. Moreover, when the costs of art fair booths or transportation to art fairs are shared, it is important to sign a detailed cooperation contract on issues such as who covers the costs first? Who will take over what share of the transportation costs? Whose name will appear first on the sign over the booth?

In relation to non-art institutions both parties should agree to sign a detailed cooperation contract to confirm the strategic marketing alliance. It is useful to clarify expectations and deliveries on both sides, so that everyone’s aims are clear.

In relation to HNWI it is important to have an informal yet detailed agreement that clarifies all issues involved in the show. When a “Carte Blanche” is handed out, the gallerist needs to be particularly clear that the show needs to be cost-effective and that not all special and personal wishes can be fulfilled. As with every show there is a budget that must not overrun.

Finally, artists prove to be the most frequent and most specific cooperation partner in the network. A detailed cooperation contract should be the basis for future collaboration between galleries and their artists (BVDG, 2010).

Coordination is probably most relevant in the Fine Art division. Galleries must define effective processes and contracts in order to meet the expectations of buyers and sellers alike. Here, coordination requires clear contracts between suppliers of Fine Art artworks and buyers or intermediaries. Only with standardised procedures can the gallery and its partners secure a valuable position in the market.

4.4.9.1 Coordination with Artists

In their cooperation with artists gallerists must follow a clear coordination concept that clarifies issues in advance and forms the basis for trust and security between both partners. Cooperation with artists is simplified when artists take on responsibilities beyond their artistic work. The prevailing self-perception of artists as management-freed individuals may mean that many find it difficult to deal with issues such as self-promotion, customer orientation, organisation of a show and so on. “Acquiring new customers, negotiating with clients and marketing my programme are awkward entrepreneurial duties for me. I prefer to focus on my music projects” claims a cello player (Bundesministerium für Wirtschaft und Arbeit, 2004). It is this idealistic approach and subversive reluctance towards management practices that keep artists from becoming excellent and reliable partners for gallerists. Researchers as well as practitioners claim that this needs to change very soon, because artists need to become more entrepreneurial in order to make the most of their competitive advantage over their peers (Colbert, 2003; Hausmann, 2010; Konrad, 2004). It is a considerable competitive advantage for an artist to have a sufficiently professional work ethic that partners (i.e. gallerists) will pass over other, more reluctant artists in favour of a more
trouble-free working relationship. Holding up excellent relations to potential customers, customer focus and the cultivation of customer relations, as well as excellent and professional organisation, are sources of competitive advantage (Hausmann, 2010). These are the qualities that gallerists look for within their group of artists.

Among the various issues that influence relations between artist and gallery, the following are of great importance.

**Billing**

Artists need to write a bill to the gallery for every sold work. The gallery will then transfer the money to the artist’s account within four to six weeks of the artwork being sold, and always after receipt of the money. In case of default on the buyer side, the artist needs to be informed immediately. The gallerist should not and must not tell the artist the buyer’s contact details.

**Prices**

To increase transparency for the customer, artists need to give the gallerist exact previous prices for artworks in other galleries etc. This allows the gallery to price artworks according to previous price levels. A transparent pricing system is in the interest of both artist and gallerist. It is the artist’s responsibility to verify prices with the gallerist in case of doubt.

**Sale out of the studio/art architecture/remittance work**

Gallerists must decide individually with their artists the exact procedure for artworks that are sold out of the studio, art architectural projects or remittance work. Depending on the relationship of the gallery with the artist, all sales should be done via the gallery. Alternatively the gallery can leave it up to the artist to decide.

**Shows in museums and art institutions**

Gallerists might introduce an artist to a museum or an art institution. As a reward the artist should reimburse the gallerist either financially or in the form of a painting.

**Insurance**

Since all artworks are sold on commission it is the gallerist’s responsibility to insure sufficiently. The insured sum should be based on the value of the commission by an artist.

**Photos and documentation of the show**

It is the artist’s duty to provide the gallery with suitable and useful digital images of any work offered to the gallery for marketing purposes. Reproduction and copyright are handed over to the gallerist who can freely use the materials provided on websites, mailings, etc. It is up to the gallerist to decide where, how and in what form to use the digital images provided. When cropped or cut the gallerist might want to consult the artist, but no formal agreement is required.
Exhibition set-up and title

When an exhibition is organised the artist and gallerist should draft together the set-up of the show. The artist can contribute ideas but must be willing to accept the final decision of the gallerist. The same goes for the title of the show, which is selected by the gallerist.

Costs

Costs in the relationship between an artist and a gallery might relate to transportation, framing, rental for any technology, reconstruction of the gallery space, PR work, vernissage and advertisement. For all costs, the gallery must define a clear procedure with the artist depending on their relationship.

4.4.9.2 Controlling of Artists

A continuous and thoughtful revision of any cooperation is useful and necessary in order to focus work and get the most out of it. While the success of many cooperation will contribute to a greater or lesser extent to the gallerist’s success, the most critical cooperation to get right is that with the artist, the most frequent and indispensable of all cooperation, and potentially the most expensive if not carefully controlled and frequently revised. In our new model we therefore developed a framework to analyse the success of individual artists and their fit into the value proposition. The following framework will help to do so:

Today galleries work together with a selection of artists that they consider as “artists of the gallery”. These artists are exclusively represented by the gallery. Exclusivity also means that in the event of an exhibition in a different gallery, this gallery (the so-called “first” gallery) receives a share of the revenue. The percentage of the share varies from 10% to 20%.

Accepting an artist as “gallery artist” brings some responsibilities, such as promoting the artist with influential people and institutions, organising museum exhibitions or transferring the artist to international partner galleries. Usually, the relationship between the gallery and its artists is long-term. Over the years, while little revision of this collaboration might be done, galleries are afraid to drop an artist from their list. Interestingly, no revision is done whatsoever to the percentage share of an artist. An artist will receive the same 50% whether young and unsuccessful or later during the more mature and successful years.

Our new model therefore introduces the idea of doing continual revisions of the arrangements with any artist the gallery works with, like a portfolio analysis or performance measurement system. The performance measurement has two goals:

(1) Analyse and document the current performance of its artist and decide which artists should receive more or less attention.

(2) Develop growth strategies for adding new artists to the portfolio, while deciding on future collaborations with current artists.
Assessing artists’ performance is a difficult task. One of the main difficulties is the “balancing act” between aesthetic purposes and market imperatives in a complex environment where these two objectives are in conflict (Lampel, Lant, & Shamsie, 2000, p. 265). However, other authors have argued that performance measurement is essential for firms operating in the art market. They point out that, even though the art world has shown little interest in developing evaluative systems, they can enhance an art organisation’s ability to meet its objectives (Kaplan & Norton, 2001; Matarasso, 1996). But of course, there are limits to measuring performance of artists in galleries. Difficulties in measuring qualitative outcomes, the lack of technological set-up and capabilities, weak management commitment and the lack of timely and relevant information are barriers for a successful performance measurement system in galleries. Hence, the measurement system must be as effective as possible regarding outcome, time investment and capabilities. Hence, we base our performance measurement on BCG’s portfolio analysis, which has been implemented and applied successfully by firms in most other industries for a long time. While the two dimensions in BCG’s matrix can usually be financially derived, we combine financial and non-financial factors.

A combination of financial and non-financial indicators is not new to performance measurement systems. In fact, in the 1990s both practitioners and academics began to argue that non-financial indicators can be more directly related to a firm’s long-term strategy. Therefore, they should be better indicators of managerial effort and be less subject to common bias (Kaplan & Norton, 1992). In fact, as a recent study with art managers demonstrates, most managers put as much importance on financial performance indicators as on non-financial ones (Turbide & Laurin, 2009).

To evaluate the portfolio of artists, we map all galleries’ artists into a two-dimensional matrix and classify them into four categories based on combinations of financial performance data and artistic aspects. Like the goals we identified for an art gallery, financial performance serves a proxy for revenue and profit; artistic aspects describe the artistic value and market attractiveness. Both financial performance and artistic aspects are described by a set of factors. The factors are the following:
### Table 35: Factors to Evaluate the Portfolio of Artists

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description and Scale</th>
<th>Scale Example (0 or 5 or 10 points for each criteria)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL PERFORMANCE</strong></td>
<td>Contains all measures regarding the financial performance of an artist in a given time period</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>Actual revenue, measured in Euro</td>
<td>0 = 0-€25,000, 5 = €25,001-€50,000, 10 = &gt;€50,001</td>
</tr>
<tr>
<td>Rent</td>
<td>Relation of artworks sold to all artworks offered, measured in %</td>
<td>0 = 0-33%, 5 = 34-66%, 10 = 67-100%</td>
</tr>
<tr>
<td>Advertisement costs</td>
<td>Includes all costs allocated to an artist; in group shows, the costs should be divided by the number of involved artists and allocated to their account, measured in Euro</td>
<td>0 = €10,001-€15,000, 5 = €5,001 – €10,000, 10 = &lt; €5,001</td>
</tr>
<tr>
<td>Costs</td>
<td>Own perception in comparison to average time invested for an artist</td>
<td>0 = above average, 5 = average, 10 = less than average</td>
</tr>
<tr>
<td><strong>ARTISTIC VALUE</strong></td>
<td>Contains all measures regarding the artistic relevance and value of an artist in a given period</td>
<td></td>
</tr>
<tr>
<td>Number of visitors to the exhibition in the gallery</td>
<td>Average for 4 weeks’ exhibition time should be used, irrelevant of single or group show</td>
<td>0 = 0-50, 5 = 51-100, 10 = &gt;100</td>
</tr>
<tr>
<td>Press reviews, positive or negative</td>
<td>Measured in actual numbers</td>
<td>0 = 0-1, 5 = 2-4, 10 = &gt;4</td>
</tr>
<tr>
<td>Exhibitions in other galleries/museums</td>
<td>Measured in actual numbers, excellent, top-class museums count twice</td>
<td>0 = 1-5, 5 = 6-10, 10 = &gt;10</td>
</tr>
<tr>
<td>Auction Results</td>
<td>If available, in numbers</td>
<td>0 = price reduction, 5 = stable price, 10 = price growth</td>
</tr>
<tr>
<td>Handling</td>
<td>Teamwork with the artist, assessment based on own perception in comparison with others</td>
<td>0 = more difficult to handle than other artists, 5 = normal handling, 10 = excellent team-w.</td>
</tr>
<tr>
<td>Market Attractiveness</td>
<td>Potential in reference to current, upcoming trends in Contemporary Art, assessment based on own perception in comparison with others</td>
<td>0 = low market attractiveness, 5 = average market attr., 10 = high market attr.</td>
</tr>
</tbody>
</table>
According to the sum of these factors each artist is positioned into the “artists’ portfolio analysis matrix”. Using the factor sum as the basis for an analysis, categorising artists into four groups reveals strategic implications. The groups and the implications are the following:

**Figure 43: Artist Portfolio Matrix**

Dogs: Financially, dogs perform badly, creating little revenue or even losses, but consuming large amounts of cash and time. Artistically, they add little value to the art community and do not seem to have the potential to attract new interest in their work. Such artists are candidates for divestiture. Their share should be 30% or less. Examples: outdated artists, bring in no added value, have never been to the top.

Question marks: Question marks (known as “the problem child”) transfer huge artistic value and are widely accepted by the art scene. Their attractiveness on the market is high, symbolised by various press articles and exhibitions all around. However, financially they perform badly and do not generate much income. A question mark could potentially become a star. However, if not successful after years of cash consumption, they will degenerate into dogs. Gallerists are advised to analyse question marks in detail to verify if they are worth investment. In any case their share should be around 30%, but less than 50%. Examples: young artists, straight from the academy who show huge potential; elderly artists who are widely accepted by the art scene (hold a professorship) but have only little commercial success (maybe because of huge and unwieldy artworks, etc.).

Stars: Stars are the backbone of every gallery. It should be the target of every gallery to have several stars in the portfolio since they generate large amounts of cash by generating high artistic value. They are perceived by buyers, as well as art mediators, as leading and innovative and receive invitations to exhibit internationally. If stars lose the attention of the market after some years, they will become cash cows. Therefore, the portfolio of artists should always include several stars. Their share should be 50% or more, depending on their potential to endanger the
gallery by changing it for a new gallery. Examples: leaders in their field, widely published, everyone knows them.

Cash cows: As leader in financial performance, cash cows exhibit a return on investments that is greater than other artists. Generating stable cash flows, they generate more income than they consume. Their artistic value, in contrast, is relatively low. The art scene regards them as “too commercial”. Managers should extract as much profit and invest as little as possible. Their share should be around 30% but definitely less than 50%. Examples: market-driven artists, more business than art, good to work with because always well prepared. Of course, the matrix should not be seen as an ultimate and conclusive tool to decide on the future collaborations with artists. It has several limitations, such as the focus on only two categories, non-objective factor input such as handling or its assumption that each artist is independent of others. Critics might argue that artists score high when they only follow trends. However, in the end it is the gallery owner who creates demand through identification of opportunity and not by blindly following the market. Gallery owners must be aware that continual customer orientation would mean little or no creative development (Fillis, 2002). However, the matrix serves as a simple tool for viewing a gallery’s artist portfolio at a glance, and may serve as a starting point for discussing resource allocation.

Case Study

Gallery Richter and Gallery Ruetli can relate several discussions they had with artists, cooperation partners and other institutions, where they thought that a written statement would have avoided discussions and legal processes. Their lack of written formal contracts in relation to their counterparts left issues unclear and triggered debate. We therefore decided to employ a strict and binding coordination concept that should avoid future problems related to contracts. Phrasecut serves as an excellent example to demonstrate what a coordination concept might look like:

For the garage, Phrasecut only very rarely employs contracts or other written statements, since the gallery regards their engagement as non-profit and without conditions.

For the gallery, however, Phrasecut formulates explicit contracts with its counterparts: (1) With other art dealers, galleries or museums Phrasecut engages in collaborations only when official contracts are signed. Particularly when artworks are given on loan to a museum or on commission to a partner gallery, the contract system has proven valuable in avoiding dispute. Relevant discussion points usually evolve around condition reports, transportation costs, length, insurance and – in case of commissioned loans to galleries – the margin for the first gallery. With its very close cooperation partners the gallery has lengthy agreements in place to facilitate the process. (2) With non-art institutions (for example banks that co-sponsor events) Phrasecut drafts short written contracts that summarise the mission of the collaboration, both sides’ expectations and some explicit organisational tasks. This helps the gallery to ensure that its network partner doesn’t expect too much and thus avoids frustration. (3) In relation to artists, Phrasecut’s contracts are very similar to those that the major associations in Germany, Switzerland and Austria are currently recommending to their members. From its experience, Phrasecut, however, does not overestimate the power of contracts: artists wanting to leave the gallery eventually will. Similarly, if artists sell out of the studio the gallery might not find out
For Fine Art, contracts are even stricter. Here the gallery deals only with trusted sources that can demonstrate relevant references. For example, when the gallery is offered an interesting artwork, the gallery staff immediately ask for an official letter that proves the mandate, location, how many intermediaries are involved, exhibition history of the work, past auction records and name of the current owner. When the agent of a potential buyer addresses the gallery, the gallery immediately asks for a bank letter that states the financial ability of the clients to purchase the work, the so-called proof of funds (POF). Before the viewing takes place a letter of intent (LOI) must be issued to demonstrate the actual will to potentially purchase the work. Without these legal agreements the gallery will immediately stop further discussions regarding the work. Phrasecut is aware that the gallery’s strict policy in the secondary market might scare away some interesting potential buyers and seller. However, by adhering to the formalities, the gallery is protected against unprofessional actions by other agents which are usually very time-intensive and frustrating.

Interestingly, Phrasecut employs one person whose sole responsibility is to manage the commission and loan business and draft contracts.
5 Conclusion

The objective of this dissertation was to generate knowledge on the configuration of business models for art galleries. We therefore targeted three research objectives: Identification/Description, Explanation, and Evaluation. In order to achieve these research objectives we split our research approach into two major parts: the Analysis and the Implication. The Analysis dealt with the examination of current business models of art galleries (Identification/Description, Explanation); the Implication evaluated a new business model (Evaluation).

In detail, in the Analysis we wanted to (1) identify/describe the status quo of art gallery business models, and (2) explain and discuss these statistics to identify success factors. We used quantitative methods to obtain our results. Data was collected via an online survey from approximately 1,100 art galleries in Germany, Switzerland and Austria. 378 galleries (a 34.3% response rate) replied and provided us with information on their structural statistics, as well as on their management practices.

In the Implication we wanted to (3) evaluate a new business model for art galleries, based on our findings from the Analysis. We used qualitative methods to implement and verify our findings. Three galleries from Germany and Switzerland were observed in a longitudinal case study and findings from the Analysis were evaluated in a real-life context.

In the following we will present key findings, as well as discuss limitations and new research avenues.

5.1 Key Findings

In the Analysis we found that art galleries can be described as very small enterprises. The average gallery was founded in 1998 and focuses only on Contemporary Art. It is located in a main city with no subsidiary, measures approx. 160m² (including office, without warehouse), employs one full-time employee and one freelancer/intern, participated in 2008 in two art fairs and will do likewise in the future, and holds seven exhibitions per year. It considers the rent for its gallery to be its highest cost, followed by the fee for participating at art fairs and salaries for its employees. The most frequent visitors to its gallery are the “Vernissage crowd”, i.e. those that are highly interested in the event. Buyers are mostly from the group of art connoisseurs, i.e. one-off buyers, and art lovers, i.e. those who buy rather frequently. Galleries’ main competitors are other galleries and artists, followed by dealers. A gallery’s revenue in 2008 was approx. €471,000, and 15% of this revenue is generated at art fairs. Its profit is approximately 4.6% of revenue or in actual terms €21,660. Interestingly, when we compared our findings to existing (but mostly outdated) data, we found it lends support to our results.

Furthermore, we identified two recurring business models in the art gallery market for Contemporary Art: (1) the primary market galleries and (2) the primary + secondary market galleries. While the latter is active in both markets, the former is only active in the primary. This
different business focus changes most dimensions of the business model, particularly the organisational model.

Additionally, we explained our statistics using a regression analysis in order to identify success factors. When we hypothesised that an elaborated business model is positively related to economic performance, we found that three out of the nine concepts are statistically significant and are therefore relevant for further analysis; the growth concept and the communication concept both hold negative signs, while the organisation concept is positive and economically very large. Hence, the organisational concept is the only real success factor. Given the organisational concept’s strong correlation with various other concepts, we believe that it presents the perfect starting point for a revision of the art gallery business model and presents a valuable and impactful success factor.

Initially, the two negative coefficients appeared to be very strong since they had an independent negative impact on performance. We believe, however, that the negative impact of communication is a result of the high cost of intensive communication efforts, as well as its power through correlation with other concepts (.71 with value proposition and .71 with competence). With the growth concept, we believe that the negative coefficient derives from the fact that a growth concept has not widely been applied or is applied falsely.

The organisational concept, however, holds the highest positive coefficient, almost double that of the strongest negative coefficient. Moreover, it is highly correlated with most other concepts. The organisation concept, in contrast to the communication or growth concept, is particularly highly correlated with the customer concept (.90), revenue concept (.72), coordination concept (.73) and the cooperation concept (.82). All of these show only weak correlation with the communication concept. Therefore, we concluded that in a result where most concepts are only marginally negative or positive (not more than €10,000) it seems that the organisation concept captures most of the value of other concepts.

This claim is supported by the results of an F-Test we conducted under the null hypothesis that all coefficients on Bieger’s model are equal to zero. The resulting F-stat is 12.79 (and distributed according to an F-statistic with 9 and 252 degrees of freedom). Thus, we can reject the hypothesis that an elaborate management concept does NOT matter for profits. From this we conclude that at least one of Bieger’s dimensions has a positive impact, which we identified as the organisational concept.

In the Implication we evaluated a new business model for art galleries. Our new business model takes the organisational concept as its starting point. Galleries’ future organisational concept must be enlarged so that galleries become active throughout the three phases of an artist’s lifecycle (and even after death): the shopping phase, the decision phase and the final phase. Therefore, the three-pillar structure with the “garage”, the “gallery” and “fine art” is applied. This allows galleries to offer a unique value proposition to their clients because they are active in
every career step of an artist, even after death. This value proposition should be offered individually to three identified customer groups: arty, rookie and traditional. While thearty group and the traditional group describe existing clients, the rookie group identifies a new set of customers that is currently not included in the market. Communication with all these customers is characterised by the idea of developing a unique gallery brand, using innovative yet cost-effective approaches. Being active in the primary as well as in the secondary market further leverages revenue. Innovative ideas are implemented to increase the quantity of artworks sold, while offering attractive pricing models and cutting costs through operational efficiency and a flexible structure for dividing income between artist and gallery. The organisational concept also affects the growth concept, which must allow for distribution of art on a global scale. An increasing value chain challenges existing competencies. New galleries will need advanced competence in management, marketing and selling. The gallery of the future will also engage in cooperation with partners from both art and non-art backgrounds to establish long-term relationships. However, in cooperation with any partner (including artists) galleries will bind them to strict contracts that will be continually revised.
Table 36: Results of This Dissertation

<table>
<thead>
<tr>
<th>Structure</th>
<th>Research Objective</th>
<th>Sub-Research Question</th>
<th>Results</th>
</tr>
</thead>
</table>
| **Analysis** | Identify and describe the status quo | What are the most relevant statistics to describe the business model of art galleries? | Foundation year: 1998  
Focus: 84% on Contemporary Art, 16% on non-Contemporary  
Location: in main city, central location, no subsidiary  
Size: approx. 160m² (including office, without warehouse)  
Employees: one full-time, 1 part-time  
Art Fairs: participation at two in 2008 and continually does so  
Exhibitions: seven yearly  
Highest cost factor: rent, Art Fair participation fees, salaries  
Most frequent visitor: Vernissage crowd  
Most frequent buyer: art connoisseurs, art lovers  
Main competitor: Other galleries, artists  
Revenue in 2008: €471,000  
Revenue through art fairs: 15%  
Profit in 2008: 4.6% of the revenue or €21,660 |
| **Evaluate possible new business model for art galleries** | Organisational Concept:  
- statistically significant at 5% level  
- highest coefficient: €59,383.32  
- strongest correlation with customer concept (.90), revenue concept (.72), coordination concept (.73) and the cooperation concept (.82).  
What are the predominant business models for art galleries?  
- only active in primary market  
Primary Market Gallery  
- active in primary and secondary market  
Primary + Secondary Market Gallery  
|
5.2 Limitations

The dissertation at hand focuses on the management of art galleries for Contemporary Art in Switzerland, Germany and Austria. As a consequence of the originality and uniqueness of this topic, this dissertation contains several limitations.

In general, we are aware that the business model concept in combination with success factor research reduces the complexity of a firm’s success to only a few factors. Hence, there is the possibility that we have left out relevant components to measure success. Limitations therefore concern the validity, generalisability, reliability and methodology of our approach and data, and this is discussed in 3.5.

Concerning the validity, we argue that our data is derived from the past and might be affected by history threats such as the economic crisis in 2008. Hence, our findings might be particularly restricted in their implications for the future due to time issues and falsely interpreted interdependencies.

Concerning the generalisability, we observed only a small fraction of existing art galleries and in only three countries. Hence, many of our independent variables lack statistic significance and could be driven by unobserved heterogeneity. We tried to limit this by introducing control variables.

Concerning the reliability, it could be argued that we only took a “snapshot” of the situation. Since several effects are more longitudinal in nature, the observed relationships and impacts might vary. A long-run study could provide worthwhile insights.

Concerning the methodology, we identified several limitations, such as classical measurement errors, omitted variable bias and reversed causality. In general, these limitations possibly make it hard to give our coefficients a causal interpretation. However, in the absence of a theory for why there would be unobserved factors (i.e. factors not controlled for in the regression) the OLS estimates are still the “best guess” of the true causal effect.

5.3 New Research Avenues

While our dissertation contains several limitations, our original and novel results open several new research avenues.

First, each dimension could be observed in more detail: One of the ideas behind the business model concept is to map current business practices in enterprises. Its scope is therefore limited to concentrating only on central parts of the business logic. It could be interesting to have a closer look at a single dimension. For example, a more detailed look at the coordination concept might lead to a comprehensive description of the elements that contracts between the gallery and its stakeholders should contain. When we observed the communication concept more closely (Resch, 2008), we were able to describe key components of a CRM system. In general, a more
detailed observation of single dimensions could lead to new and innovative ideas on how to improve overall performance.

Second, the data set could be widened, and regularly collected: This dissertation generated a new and unknown data set on art galleries in Germany, Switzerland and Austria. It will be interesting to validate this data against our findings on a regular basis to deepen our insight into the art gallery market. However, although our data is one of the largest data sets on the art gallery market and included more than 370 galleries, the majority of galleries did not reply. It could be the target of future research to generate more valid data on a regular basis, since existing annual “Cultural Reports” for major cities in Germany, Switzerland and Austria only deliver biased and unclear data on art galleries.

Third, the research scope could be enlarged geographically and structurally: We analysed galleries in Germany, Switzerland and Austria only, excluding major art spots like Hong Kong, the US or the UK. It could be argued that art galleries in these three most relevant art markets are completely different and apply diverse business models. In particular, it would be interesting to compare our industry statistics to those of international galleries to identify similarities and differences. This could lead to generalisable information on the art gallery market and might identify patterns that are worth analysing. Furthermore, we focused on a very specific area of the art market. Our results show that the type of art sold has an impact on the performance of galleries. As we have seen in 2.3.1 the art market consists of several categories and sectors. It would therefore be interesting to conduct a similar study for categories other than Fine Art to see if there are differences or a similar pattern.

Fourth, the research methodology could be transferred to other industries: Our research methodology applied a dual approach. First, the business model concept was used as a tool for analysing business practices in a particular industry. Results were interpreted via a regression analysis. Second, qualitative case studies were conducted in order to implement the findings and validate the results. It would be interesting to see if this approach generates similarly valuable findings in other industries traditionally dominated by SMEs and showing a similar historical lack of management. For example, painter and decorator businesses or other businesses revolving around construction trades and crafts, such as electricians, plumbers and cabinetmakers, present an interesting research field, because little data on their management capabilities is available and these industries have not been the subject of many research projects.
## 6 Appendix

### 6.1 Translation of Quotes

<table>
<thead>
<tr>
<th>Chapter 1</th>
<th>Author’s translation (English)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Unser Jeschäft hat einen Nimbus, und den jeährden Se, wenn Se über't Jeschäftliche schreiben [sic]” (Bongard, 1965)</td>
<td>“Our business has an aura and you are destroying it when you write about business stuff”</td>
</tr>
<tr>
<td>“die Statistik nur in sehr eingeschränktem Maße Daten liefert […]. [Deshalb] müssen bei der Analyse und der Interpretation der statistischen Daten für Kulturwirtschaft eine Fülle von Schätzungen vorgenommen werden” (ICG Culturplan &amp; STADTart Planungs-Beratungsbüro, 2006, p. 42)</td>
<td>“official statistics only deliver very limited insights. Therefore, in order to analyse and interpret existing statistical data researchers must make use of estimates”</td>
</tr>
<tr>
<td>“wenn die gegenwärtigen Herausforderungen als Chancen begriffen und genutzt werden. Dazu muss es der Galerien und die Herausforderungen gelingen, einen nachhaltigen Wandel von der bisherigen apodiktischen Kunstart, die bestimmt ist, die konsequent Kundenorientierung zu vollziehen” (Shaw, 2002, p. 349)</td>
<td>“if current challenges are considered as chances. Galleries must transfer from an art centered business to a client-focused enterprise“</td>
</tr>
<tr>
<td>“der rückständigste und unbeweglichste Handel, den man sich überhaupt vorstellen kann. Die Galerien bedienen sich fast ausnahmslos mittelalterlicher - um nicht zu sagen steinzeitlicher - Vertriebs- und Werbemethoden, die jedem modernen Einzelhandelskonzept und allen Prinzipien des Marketing hohnsprechen. Der Dilettantismus, mit dem das Galeriegeschäft heute in der Regel noch betrieben wird, spottet alles in allem jeder Beschreibung” (Bongard, 1965)</td>
<td>“the most antiquated and immobile business that one could think of. Galleries apply medieval – not to say stone Age – distribution and marketing methods, that ridicule modern retail industry and marketing practices. The dilettantism that galleries apply defies any description“</td>
</tr>
<tr>
<td>“Die seit Ende der achtziger Jahre zu beobachtende Institutionalisierung von Kulturmanagement folgt der Erkenntnis, dass vor dem Hintergrund begrenzter oder sich verringennder staatlicher-öffentlicher Finanzierungsmöglichkeiten eine Professionalisierung und Ökonomisierung der Kulturarbeit dringend geboten ist” (Heinze, 2008, p.9).</td>
<td>“The institutionalisation of cultural management that started in the late eighties results from the fact that limited public financial power fostered the development of professionalism and business principles in the arts”</td>
</tr>
<tr>
<td>“Trotz innovativer und qualitativ hochwertiger kultureller Dienstleistungen ist der Umsatz der meisten kleinen</td>
<td>“Despite innovative and artistically highly regarded offerings, the revenue of cultural enterprises is still very small. Often there is a</td>
</tr>
</tbody>
</table>
Kulturunternehmer gering. Oftmals fehlt ein unternehmerisches Bewusstsein als Basis, um auch wirtschaftlich erfolgreich zu sein. [Es fehlt daran], dass sich Kulturunternehmer nicht nur als Kulturschaffende, sondern auch als Unternehmer definieren und die eigenen Dienstleistungen zu angemessenen Preisen, selbstbewusst und offensiv, auf dem Markt positionieren“ (Mandel, 2007, p.10)

“Wie inhaltsneutral sind die Managementmethoden des Wirtschaftsmanagements, und inwieweit sind sie daher im Kulturmanagement tauglich?“ (Fuchs, 1993, p. 13).

“Ein interessanter Forschungsschwerpunkt ergibt sich aus der Frage, welche Konfiguration bezüglich der Ausgestaltung einzelner Elemente der Geschäftsmodelle kompatibel sind und wie sich die entsprechende Ausgestaltung auf den unternehmerischen Erfolg auswirkt“ (Bieger et al., 2002, p. 58)

“Um die Wechselwirkung beschreiben zu können, stellen wir die folgende Frage innerhalb dieses Geschäftsmodellteils: Welche Interdependenzen zwischen den einzelnen Elementen des Geschäftsmodells treten auf, und wie wirken sich diese auf die Geschäftsmodellformulierung aus?“ (Gemünden & Schulz, 2003, p. 170)

<table>
<thead>
<tr>
<th>Chapter 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Trotz intensiver Bemühungen war der Erfolgsfaktorenforschung kein großer Erfolg beschieden. Zunächst ist bemerkenswert …, dass es die Vertreter der Erfolgsfaktorenforschung kaum interessiert, was die Praxis mit ihren vermeintlich relevanten Ergebnissen tatsächlich anfängt“ (Nicolai &amp; Kieser, 2002, p. 581)</td>
</tr>
<tr>
<td>“Research on success factors was only marginally successful, despite its intensive effort. It seems that supporters of success factor research are not interested in the outcome of their findings and how these are implemented into practice“</td>
</tr>
<tr>
<td>“Ihre Eignung zur Bedürfnisbefriedigung macht Kunst einem bewohnbaren Haus oder einem kultivierbaren Stück Land</td>
</tr>
<tr>
<td>“Their usage as tool to satisfy one’s needs makes the arts comparable to a property or a piece of land. Art is additionally something</td>
</tr>
</tbody>
</table>

lack of entrepreneurial and business thinking to become economically successful. Currently, cultural entrepreneurs think of themselves only as creative forces, and not as managers who need to position their services at an appropriate price on the market”

“How objective are management principles and to what extent can they be transferred to the cultural sector?“

“Some economists opine that their tool-set can be universally applied. However, this view disagrees with basic principles that successful managers in the art business apply”

“An interesting research focus derives from the question which configuration in reference to the arrangement of the business model dimensions are compatible and how this arrangement influences the economic performance”

“We formulate the following question to describe the interdependencies within the business model concept: Which interdependencies exist and how do they impact the business model configuration?”
<table>
<thead>
<tr>
<th>Appendix</th>
</tr>
</thead>
</table>
| vergleichbar. Kunst ist somit etwas grundsätzlich anderes als eine Aktie, von der man als solche in ihrer Gegenständlichkeit nichts hat und die sich, wollte man sie wie ein Gemälde als Wandschmuck benutzen, sehr merkwürdig ausnähme“ (Grampp, 1989, p. 207) | totally different compared to a stock, because a stock can’t be used as decoration of a wall to beautify it”.
| Chapter 3 |
| “Im Kulturbereich geht es dabei um die Frage, ob sich z.B. eine Galerie, ein Theater oder eine Kleinkunstbühne undifferenziert an die Kunden und Besucher wendet oder ob differenzierte Angebote für einzelne Zielgruppen geschaffen werden” (Hausmann, 2009, p. 40) | “In the art business this can be interpreted as whether a gallery, a theatre or a cabaret follows an undifferentiated approach when targeting clients and visitors, or if it approaches clients with tailored offers.”
| “Die Dienstleistungen müssen für Zwecke der Kommunikationspolitik materialisiert werden” (Hausmann, 2009, p. 72). | “To communicate a service, you must make it tangible.”
| “Es ist deshalb schwierig, auf Basis der amtlichen Statistik angemessenes Datenmaterial für diesen Teilmarkt aufzubereiten. Außerdem wird der Kunstmarkt in der amtlichen Statistik mit anderen artfremden wirtschaftlichen Aktivitäten zusammengelegt, wie zum Beispiel mit dem Verkauf von Geschenkartikeln, Hirschgeweihen, Briefmarken, etc.“ (BMWI, 2009a). | Hence, it is difficult to analyse this market based on existing statistics. Additionally, the art market is merged together with dissimilar categories, such as the selling of gifts, deer antlers, postage stamps, etc.”
| Chapter 4 |
| “Um die Wechselwirkung beschreiben zu können, stellen wir die folgende Frage innerhalb dieses Geschäftsmodellteils: Welche Interdependenzen zwischen den einzelnen Elementen des Geschäftsmodells treten auf, und wie wirken sich diese auf die Geschäftsmodellformulierung aus?“ (Gemünden & Scholz, 2003, p. 170) | “We formulate following question to describe the interdependencies within the business model concept: Which interdependencies exist and how do they impact the business model configuration?”

| 6.2 Questionnaire |
| 6.2.1 Questionnaire in German |
| Das Geschäftsmodell 2010 von Kunstgalerien – Fragebogen |
Liebe(r) Galerist(in),

Sie haben nur wenig Zeit - wir wissen das! Deshalb bitten wir Sie auch nur um 9 Minuten!


Für Ihr Vertrauen und Ihre Hilfe möchten wir uns bereits im Voraus bei Ihnen bedanken. Als kleiner Anreiz zur Teilnahme: Unter allen Teilnehmern (ca. 1.500) verlosen wir ein brandneues und originales I-Phone 3G S, 16 GB, Sim-Free, Wert: 799,95 € (Teilnahme auf der letzten Seiten des Fragebogens).

In Kürze:
- Erste länderübergreifende Branchenumfrage für Galeristen
- Geleitet durch die Universität St. Gallen in Zusammenarbeit mit zahlreichen Verbänden, lokalen Galerien-Zusammenschlüssen
- Ziel: Dokumentation des Ist-Zustandes und nachhaltige Verbesserung des Managements von Kunstgalerien

Vorgehen:
- Schritt 1: Sammeln der Daten von ca. 1.500 Galerien in Deutschland, Schweiz, Österreich
- Schritt 2: Analyse der Daten
- Schritt 3: Entwicklung von Verbesserungsvorschläge für aktuelle Praktiken in Galerien
- Schritt 4: Umsetzen in die Praxis und Test auf Durchsetzungsstärke
- Schritt 5: Vorstellen der Ergebnisse

Besonderer Dank an:
Landesverband Berliner Galerien (LVBG)
Galerienverband Schleswig-Holstein
Landesverband Galerien in Baden-Württemberg
Landesverband Galerien in Hessen und Rheinland-Pfalz
parallel - Galerien in Düsseldorf
Münchner Galerien - Galerien in München
Galerien Frankfurt - Galerien in Frankfurt
Köln Galerien - Galerien in Köln
Galerien in Hamburg - Galerien in Hamburg
art alarm - Galerien in Stuttgart
Die Galerien - Verband Österreichischer Galerien
Galerien in Zürich
sowie allen Galeristen, die sich Zeit genommen haben, diesen Fragebogen zu entwickeln.
## Ansprechperson:
Magnus B. Resch, Doktorand  
+41 76 340 8178  
Magnus.Resch@student.unisg.ch

## Strukturdaten

### Gründungsjahr
<table>
<thead>
<tr>
<th>Wann wurde Ihre Galerie gegründet</th>
</tr>
</thead>
</table>

### Kunstsektor
<table>
<thead>
<tr>
<th>Welche Art von Kunst zeigt/ handelt Ihre Galerie (Kategorien gemäss arprice.com, Christie’s)</th>
<th>Yes / No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alte Meister (Giottto – Constable)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>19. Jahrhundert (ausser Moderne)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Moderne Kunst (Impressionisten – Anfang 2. Weltkrieg)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Post-War</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Contemporary (seit 1945)</td>
<td>Yes / No</td>
</tr>
</tbody>
</table>

### Galeriefiliale
<table>
<thead>
<tr>
<th>Nein, es besteht keine weitere Galerie</th>
<th>Yes / No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ja, es bestehen weitere Galeriefilialen (Nummer eintragen)</td>
<td></td>
</tr>
</tbody>
</table>

### Lage der Galerie
<table>
<thead>
<tr>
<th>Grossstadt (mehr als 100‘000 Einwohner)</th>
<th>Yes / No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kleinstadt (weniger als 100‘000 Einwohner)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Innenstadt / Ortszentrum</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Stadtteil / Vorort</td>
<td>Yes / No</td>
</tr>
</tbody>
</table>

### Grösse
<table>
<thead>
<tr>
<th>Wie gross ist Ihre Galerie (inkl. Büro, exkl. Lagerraum) in m²</th>
</tr>
</thead>
</table>

### Mitarbeiter
<table>
<thead>
<tr>
<th>Wie viele Festangestellte arbeiten bei Ihnen?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wie viele Freelancer / Teilzeit / Praktikanten?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
</tbody>
</table>

### Kunstmessen in 2008
<table>
<thead>
<tr>
<th>Bei wie vielen Kunstmessen haben Sie 2008 teilgenommen</th>
</tr>
</thead>
</table>

### Kunstmessen in Zukunft
<table>
<thead>
<tr>
<th>Wie sehen Sie die Teilnahme an Messen in der</th>
</tr>
</thead>
<tbody>
<tr>
<td>mehr</td>
</tr>
<tr>
<td>weniger</td>
</tr>
<tr>
<td>gleich</td>
</tr>
</tbody>
</table>
### Zukunft

### Ausstellungen in 2008

Wieviele Ausstellungen haben Sie 2008 gemacht?

### Umsatz und Kosten

#### Umsatz in 2008

<table>
<thead>
<tr>
<th>Umsatz in 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wie viel Umsatz haben Sie in 2008 gemacht (in €)</td>
</tr>
<tr>
<td>&lt;100'000 €</td>
</tr>
<tr>
<td>100'000 - 300'000 €</td>
</tr>
<tr>
<td>300'001 - 500'000 €</td>
</tr>
<tr>
<td>500'001 - 700'000 €</td>
</tr>
<tr>
<td>700'001 - 900'000 €</td>
</tr>
<tr>
<td>900'001 - 1'000'000 €</td>
</tr>
<tr>
<td>1'000'001 - 3'000'000 €</td>
</tr>
<tr>
<td>3'000'001 - 5'000'000 €</td>
</tr>
<tr>
<td>5'000'001 - 10'000'000 €</td>
</tr>
<tr>
<td>&gt;10'000'000 €</td>
</tr>
</tbody>
</table>

#### Umsatz an Kunstmessen

<table>
<thead>
<tr>
<th>Umsatz an Kunstmessen</th>
<th>&lt; 10 %</th>
<th>10 - 20 %</th>
<th>21 – 30 %</th>
<th>31 – 40 %</th>
<th>41 – 50 %</th>
<th>&gt;50 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wie viel von dem Umsatz wurde an Kunstmessen generiert?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Kostenträger in der Galerie

Was sind die höchsten Kostenträger in Ihrer Galerie? Bitte erstellen Sie ein Ranking, indem Sie die Kosten nach Gewichtung ordnen. Die höchsten Kosten sollten zuoberst stehen.

<table>
<thead>
<tr>
<th>Personalkosten</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raummiete (Galerie + Lager)</td>
</tr>
<tr>
<td>Teilnahme Kunstmesse (Gebühr, Unterkunft, etc, ohne Transport)</td>
</tr>
<tr>
<td>Transportkosten</td>
</tr>
<tr>
<td>Versicherung</td>
</tr>
<tr>
<td>Werbung (z.B. Aussand, Plakate, Inserate, etc.)</td>
</tr>
<tr>
<td>Kataloge</td>
</tr>
<tr>
<td>IT (EDV Struktur, Software Kosten, Website, IT Support, etc.)</td>
</tr>
<tr>
<td>Dienstleister (Anwalt, Berater, etc.)</td>
</tr>
<tr>
<td>Weitere (spezifiziere)</td>
</tr>
</tbody>
</table>

#### Besucher, Kunden, Wettbewerber

#### Besucher

Wer besuchte Ihre Galerie am häufigsten? Bitte erstellen Sie ein Ranking, indem Sie die Besucher-Gruppen nach
Häufigkeit ihres Besuchs ordnen. Die Gruppe, die zahlenmässig am häufigsten in die Galerie kommt, sollte zuoberst stehen.

| Vernissage Publikum (am Event interessiert) |
| Kunstd – Interessierte (typischer Museumsbesucher) |
| Künstler |
| Sammler |
| Laupublikum |
| Händler / Art Consultant / Galeristen |

**Kunden**

Wer kauft in Ihre Galerie am häufigsten? (Kunden nach Motiven ihres Kaufs geordnet)

Bitte erstellen Sie ein Ranking, indem Sie die Kunden nach Anzahl der Käufe ordnen. Die Kundengruppe, die in Ihrer Galerie am häufigsten kauft, sollte zuoberst stehen.

| Gelegenheitskäufer |
| Kunstliebhaber und Künstler (kaufen regelmässig wegen der Freunde an der Kunst, sehen Kunst als Inspiration) |
| Investoren (spekulieren mit Kunst, sind auf das schnelle Geschäft aus) |
| Händler / Art Consultant / Galeristen |
| Firmen (Corporates) |

**Kundenpotential**

Wie gross schätzen Sie Ihr Kundenpotential (Gesamtheit möglicher Kunden) ein?

Weiss nicht

**Wettbewerber**

Wer sind Ihre direkten Wettbewerber

Bitte erstellen Sie ein Ranking, indem Sie die Wettbewerber nach Relevanz ordnen. Ihr grösster Wettbewerber sollte zuoberst stehen.

| Andere Galerien |
| Händler / Art Consultant |
| Museen |
| Künstler (die z.B. aus dem Atelier verkaufen) |
| Auktionshäuser |
| Andere |

**Geschäftsmodell**

**Business Model**

1 = „stimme ganz und gar nicht zu“; 3 = „ist mir gleichgültig“; 7 = „stimme entschieden zu“

| Leistungskonzept |
| Unser Ziel ist es nicht unseren Kunden Bilder zu verkaufen, sondern wir wollen ihnen ein Leistungssystem offerieren. Der Bilderverkauf ist dabei nur ein Bestandteil (breite Leistung). |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
Wir verfolgen die Entwicklung des Marktes und versuchen frühzeitig darauf zu reagieren / bzw. diese aktiv mitzugestalten
Wir bieten zum reinen Kunstverkauf weitere Dienstleistungen an

<table>
<thead>
<tr>
<th>Kundenkonzept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wir wissen genau wer unsere (potentiellen) Kunden sind und kennen deren Wünsche</td>
</tr>
<tr>
<td>Wir haben unsere Kunden in spezifische Gruppen eingeteilt (Kundengruppen)</td>
</tr>
<tr>
<td>Wir bieten individuelle Leistungen für jede Gruppe an (Kundennutzen)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kommunikationskonzept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wir kommunizieren aktiv unsere Leistungen zu unseren Kunden via verschiedener Massnahmen (Newsletter, Postversand, Blogs, Events, Guerilla)</td>
</tr>
<tr>
<td>Communities spielen für uns eine besonders wichtige Rolle (Communities)</td>
</tr>
<tr>
<td>Unser Ziel ist es langfristige Kundenbeziehungen aufzubauen (Kundenvertrauen)</td>
</tr>
<tr>
<td>Uns fällt es leicht im Rahmen unserer Kommunikation neue bzw. potenzielle Kunden anzusprechen / für unsere Leistungen zu begeistern. (Akquise)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ertragskonzept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Der Primary Market (Verkauf von Bildern aus Ausstellungen/Lager) ist für uns nur EINE Einkommensquelle (Ausbau)</td>
</tr>
<tr>
<td>Der Secondary Market spielt für uns die grösste Rolle</td>
</tr>
<tr>
<td>Wir bieten Nebenleistungen an (z.B. Consulting, Info Talks, Vermietung der Räume) (Nebengeschäfte)</td>
</tr>
<tr>
<td>Wir locken aktiv Agenten / Art Agents / Art Consultants mit Umsatzprovision an, damit diese neue Kunden vermitteln.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wachstumskonzept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unser langfristiges Ziel ist es zu wachsen.</td>
</tr>
<tr>
<td>Wir wollen wachsen durch ein grösseres Share of wallet (Umsatz pro Kunde)</td>
</tr>
<tr>
<td>Wir wollen wachsen durch die Erschliessung neuer Märkte (z.B. Eröffnung einer Filiale in einer anderen Stadt oder Land wie Indien, China, etc.)</td>
</tr>
<tr>
<td>Wir haben ein Finanzierungskonzept entwickelt, um wachsen zu können.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kompetenzkonfiguration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsere Kernkompetenz liegt im Management unserer Galerie (Organisation, Abwicklung, Prozessgestaltung, etc.) (Management)</td>
</tr>
</tbody>
</table>
Eine weitere Kernkompetenz liegt im Sortiment (Auswahl der Künstler) (Gespür)

Eine weitere Kernkompetenz liegt im Umgang mit Künstlern und Kunden (soziale Kompetenz)

**Organisationskonzept**
Wir haben eine Organisationsform gefunden, mit der wir unsere Kernkompetenzen ausspielen können

In unserer Galerie sind die Strukturen und Aufgaben (to do lists) klar verteilt (jeder weiß, was er tun muss)

Wir pflegen feste Partnerschaften mit Unternehmen, die für unseren Leistungserstellungsprozess essenziell sind (Maler, Transport, Versicherung, IT Support, etc.)

Mit unserer Organisationsform heben wir uns von anderen Galerien ab

**Kooperationskonzept**
Wir kooperieren intensiv mit anderen Galerien (z.B. für Ausstellungen, Künstleraustausch, Kunden etc.)

Wir versuchen intensiv mit Partnern aus der Nicht-Kunstszene zusammenzuarbeiten (z.B. Banken, Versicherungen, Luxusunternehmen wie LVMH, etc.)

Unser Ziel ist es stets dauerhafte Partnerschaften einzugehen

**Koordinationskonzept**
Unsere Beziehungen zu unseren Kooperationspartnern sind durch unterschriebene explizite Verträge abgesichert (und nicht mdl.)

Unsere Beziehungen zu unseren Künstlern sind durch unterschriebene explizite Verträge abgesichert (und nicht mdl.)

Unsere Beziehungen zu unseren Mitarbeitern sind durch unterschriebene explizite Verträge abgesichert (und nicht mdl.).

**Gewinn und Email**

**Gewinn in 2008**

<table>
<thead>
<tr>
<th></th>
<th>-6 -10%</th>
<th>0 - 5%</th>
<th>1 - 5%</th>
<th>6 - 10%</th>
<th>11 - 15%</th>
<th>16 - 20%</th>
<th>&gt;21%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wie hoch war der Gewinn? (in Prozent des Umsatzes)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Standort der Galerie**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutschland (falls Berlin, bitte bei “Berlin” kreuzen)</td>
</tr>
<tr>
<td>Österreich</td>
</tr>
<tr>
<td>Schweiz</td>
</tr>
<tr>
<td>Berlin</td>
</tr>
</tbody>
</table>
Haben Sie Anmerkungen zum Fragebogen, weitere Anregungen zur Studie oder Fragen an die Autoren der Studie:

______________________________________________

______________________________________________

Die Umfrage ist anonym. Wenn Sie das brandneue Iphone 3GS gewinnen möchten und/oder über die Resultate der Umfrage informiert werden möchten, notieren Sie bitte hier Ihre Email Adresse. Der Gewinner des Iphones wird per Email benachrichtigt. Zu Ihrer Information: Die Email Adresse wird nicht mit Ihren Daten verbunden, sie wird seperat verschickt. Es sind daher keine Rückschlüsse auf die von Ihnen eingegebenen Daten möglich.

______________________________________________


Ansprechperson:
Universität St. Gallen Magnus B. Resch, Doktorand
+41 76 340 8178
Magnus.Resch@student.unisg.ch

6.2.2 Questionnaire in English

<table>
<thead>
<tr>
<th>Business Model of Art Galleries - Questionnaire</th>
</tr>
</thead>
</table>

Dear Gallerist,

We are aware that you only have limited time – please take 9 minutes to fill out this questionnaire.

The University of St. Gallen, Switzerland conducts a survey for art galleries in Germany, Switzerland and Austria. Its aim is to document current management practices and improve them substantially. This is the first cross-national survey in the gallery industry. Please contribute your share to its success.

Please fill out following survey. All data is anonymous. We are not able to track your results and link them to your gallery. The University of St. Gallen nor the involved associations will be able to see your personal results.

We warmly thank you for your trust and help.

To provide a little motivation to participate and offer a token of our gratitude we will raffle a brand-new I-Phone 3G S, 16GB, Sim-Free, worth 799,95€, among those who choose to participate.
In short:
- First transnational industry survey for art galleries
- Conducted by the University of St. Gallen in cooperation with various gallery associations
- Target: documentation of current management practices and substantial improvement of the management

Procedure:
- Step 1: Collection of data from 1’500 art galleries in Germany, Switzerland, Austria
- Step 2: Analysis of the data
- Step 3: Development of improvement strategies
- Step 4: Implementation in praxis to test impact of strategies
- Step 5: Presentation of the results

Special Thanks goes to
- Landesverband Berliner Galerien (LVBG)
- Galerienverband Schleswig-Holstein
- Landesverband Galerien in Baden-Württemberg
- Landesverband Galerien in Hessen und Rheinland-Pfalz
- parallel - Galerien in Düsseldorf
- Münchner Galerien - Galerien in München
- Galerien Frankfurt - Galerien in Frankfurt
- Köln Galerien - Galerien in Köln
- Galerien in Hamburg - Galerien in Hamburg
- art alarm - Galerien in Stuttgart
- Die Galerien - Verband Österreichischer Galerien
- Galerien in Zürich
- an all galleries that helped to develop this survey.

Contact person:
Magnus B. Resch, PhD candidate
+41 76 340 8178
Magnus.Resch@student.unisg.ch

### Structural Data

<table>
<thead>
<tr>
<th>Foundation Year</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>When was your gallery founded?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Art Sold</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Which type of art do you sell/deal with? (categories based on Christie’s and artprice.com)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Old Masters (Giotto – Constable)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>19th Century Art (excluding Modern Art)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Modern Art (Impressionist – beginning of WWII)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Post-War</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Contemporary (since 1945)</td>
<td>Yes / No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gallery Subsidiaries</th>
<th></th>
</tr>
</thead>
</table>
No, there exists no gallery branch
Yes, there exist other gallery branches (insert quantity)

<table>
<thead>
<tr>
<th>Location</th>
<th>Yes / No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major city (more than 100'000 inhabitants)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Minor city (less than 100’000 inhabitants)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Central</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Decentral</td>
<td>Yes / No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the size of your gallery? (incl. Office, excluding warehouse) in m²</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employees</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How many full-time employees work for you?</td>
<td></td>
</tr>
<tr>
<td>How many free-lance/part-time/interns work for you?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Art Fairs in 2008</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At how many art fairs did you participate in 2008?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Art Fairs in the Future</th>
<th>More</th>
<th>Less</th>
<th>Equal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you plan to participate at more, less or at the same amount of art fairs in the future?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exhibitions in 2008</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How many exhibitions did you organise in 2008?</td>
<td></td>
</tr>
</tbody>
</table>

**Revenue and Costs**

<table>
<thead>
<tr>
<th>Revenue in 2008</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>What was your revenue in 2008 (in €)?</td>
<td></td>
</tr>
<tr>
<td>&lt;100’000 €</td>
<td></td>
</tr>
<tr>
<td>100’000 - 300’000 €</td>
<td></td>
</tr>
<tr>
<td>300’001 - 500’000 €</td>
<td></td>
</tr>
<tr>
<td>500’001 - 700’000 €</td>
<td></td>
</tr>
<tr>
<td>700’001 - 900’000 €</td>
<td></td>
</tr>
<tr>
<td>900’001 - 1'000’000 €</td>
<td></td>
</tr>
<tr>
<td>1’000’001 - 3’000’000 €</td>
<td></td>
</tr>
<tr>
<td>3’000’001 - 5’000’000 €</td>
<td></td>
</tr>
<tr>
<td>5’000’001 - 10’000’000 €</td>
<td></td>
</tr>
<tr>
<td>&gt;10’000’000 €</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue at Art Fairs</th>
<th></th>
</tr>
</thead>
</table>
What percentage of this revenue was generated at art fairs?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>&lt; 10%</th>
<th>10 - 20%</th>
<th>21 – 30%</th>
<th>31 – 40%</th>
<th>41 – 50%</th>
<th>&gt;50%</th>
</tr>
</thead>
</table>

**Cost expenses in the gallery**

What are your cost expenses? Please rank them according to amount of costs. The highest cost group comes on top.

- Salaries
- Rent (Gallery + Warehouse)
- Participation at Art Fairs (Fee, Housing, etc + without Transport)
- Transport
- Insurance
- Advertisement (i.e. invitation cards, posters, flyers, etc.)
- Catalogue
- IT (Software, Website, IT Support, etc.)
- Support functions (Lawyer, consultant, craftsman)
- Others

**Visitors, Clients, Competitors**

**Visitors**

Who visited your gallery the most? Please rank them according to the frequency of their visits. The group that visits the gallery the most comes on top.

- Vernissage Crowd (only interested in the event)
- Art-Enthusiasts (typical museum visitors, who enjoy art)
- Artists
- Collectors (who actually have potential to buy art)
- Passing Public
- Dealers/Art Consultants/Gallerists

**Clients**

Who is the most frequent client in your gallery? Please rank them according to the frequency of their purchases. The group that buys the most frequent should be on top.

- Art Connoisseur (one time buyer)
- Art Lover (old school type of collector, deep passion for art)
- Investor (speculates with art)
- Dealer – Collector (mixture of investor and dealer)
- Corporate Collector

**Customer Potential**

How large would you estimate your customer potential? (number of potential customers)

<table>
<thead>
<tr>
<th>Number</th>
<th>No answer</th>
</tr>
</thead>
</table>

No answer
## Competitors

Who are your direct competitors? Please rank them according to relevance. Your biggest competitor should be on top.

<table>
<thead>
<tr>
<th>Other galleries</th>
<th>Art Dealers</th>
<th>Museum</th>
<th>Artists</th>
<th>Auction houses</th>
<th>Others</th>
</tr>
</thead>
</table>

## Business Model

<table>
<thead>
<tr>
<th><strong>Business Model</strong></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Proposition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It is our aim not to only sell art works to our clients but offer a value chain. Selling artworks is only one part of the chain</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We follow the development of the market and try to react proactively at an early stage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We offer other services in addition to the selling job</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Customer Concept</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We know exactly our (potential) customers and their wishes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have separated our clients into specific groups (customer groups)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We offer personalised value services to each group (customer value)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Communication Concept</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We communicate actively our value proposition to our clients via different channels (newsletter, mailing, blogs, events, guerrilla)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communities play a vital role in our communication concept (Communities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It is our aim to engage in long-lasting client relationships (customer trust)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We find it easy to reach out to new potential clients and enthuse them for our value proposition (acquisition)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue Concept</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Primary Market (sale of artworks out of exhibitions) is only ONE revenue stream for us</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Secondary Market plays the major role in our revenue concept</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We offer extra-services (i.e. consulting, expertise talks, rent out of the gallery space) (secondary business)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
We actively attract agents/art consultants with commission on sales to acquire new customers

**Growth Concept**

- It is our long-lasting goal to grow
- We wish to grow through a greater share of wallet (revenue per customer)
- We wish to grow through development of new markets (i.e. opening of a branch in a new country such as India or China)
- We have developed a financial concept that supports our growth

**Competence Configuration**

- Our key competency is the management of our gallery (organisation, process development, etc.) (Management)
- Another key competency is our assortment of goods (selection of our artists) (intuition)
- Another key competency is our contact to clients and artists (social competence)

**Organisation Concept**

- We have developed an organisational form that lets us play out our competencies
- In our gallery structural processes and jobs are clearly defined (everyone knows what to do)
- We cultivate long-lasting and intense partnerships to contractors that are essential for our value proposition (such painter, transport firms, insurance, IT support, etc.)
- We have developed an organisational form that distinguishes us from our competitors

**Cooperation Concept**

- We cooperate intensively with other galleries (for exchange of artists, exhibitions and clients)
- We try to cooperate with partners from the non-art-scene (i.e. banks, insurance companies, luxury firms such as LVMH, etc.)
- It is our aim to engage in long-lasting cooperation with them

**Coordination Concept**

- The relation to our cooperation-partners is secured by signed contracts (and not oral agreements)
- The relation to our artists are secured by signed contracts (and not oral agreements)
- The relation to our employees are secured by signed contracts (and not oral agreements)

---

**Profit and Email**
**Profit in 2008**

<table>
<thead>
<tr>
<th></th>
<th>-6 -10%</th>
<th>0 -5%</th>
<th>1 -5%</th>
<th>6 -10%</th>
<th>11 -15%</th>
<th>16 -20%</th>
<th>&gt;21%</th>
</tr>
</thead>
<tbody>
<tr>
<td>What was your profit in 2008 (in percentage of revenue)?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Location of the Gallery**

<table>
<thead>
<tr>
<th>Location</th>
<th>Yes / No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany (if Berlin, please mark Berlin)</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Austria</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Berlin</td>
<td>Yes / No</td>
</tr>
</tbody>
</table>

Do you have any comments, further suggestions or questions?

________________________________________________________________________________________

The survey is anonymous. If you would like to win the brand-new Iphone 3GS and wish to be informed of the results, please note our Email address here. The winner of the Iphone will contacted via Email.
For your information: The Email address will not be linked to your data. Hence, we will not be able to trace our data to your Email address.

________________________________________________________________________________________

Thank you very much for participating in the survey.
The analysis of data will be conducted in spring 2010. The winner of the Iphone will be announced in March 2010.

Contact Person:
Universität St. Gallen Magnus B. Resch, PhD candidate
+41 76 340 8178
Magnus.Resch@student.unisg.ch
6.3 Summary Measures by First Principal Component Construction

Table 37: Construction of Summary Measures by Taking First Principal Component (FPC)

Box 1

<table>
<thead>
<tr>
<th>pca value_1 value_2 value_3</th>
<th>Component</th>
<th>Eigenvalue</th>
<th>Difference</th>
<th>Proportion</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Comp1</td>
<td>1,83018</td>
<td>0,992743</td>
<td>0,6101</td>
<td>0,6101</td>
</tr>
<tr>
<td></td>
<td>Comp2</td>
<td>0,837441</td>
<td>0,505066</td>
<td>0,2791</td>
<td>0,8892</td>
</tr>
<tr>
<td></td>
<td>Comp3</td>
<td>0,332375</td>
<td></td>
<td>0,1108</td>
<td>1</td>
</tr>
</tbody>
</table>

Principal components (eigenvectors)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Comp1</th>
<th>Comp2</th>
<th>Comp3</th>
</tr>
</thead>
<tbody>
<tr>
<td>value_1</td>
<td>0,4146</td>
<td>0,9011</td>
<td>0,1267</td>
</tr>
<tr>
<td>value_3</td>
<td>0,6292</td>
<td>-0,3845</td>
<td>0,6755</td>
</tr>
<tr>
<td>value_2</td>
<td>0,6572</td>
<td>-0,2004</td>
<td>-0,7264</td>
</tr>
</tbody>
</table>

Box 2

<table>
<thead>
<tr>
<th>pca customer_1 customer 2 customer 3</th>
<th>Component</th>
<th>Eigenvalue</th>
<th>Difference</th>
<th>Proportion</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Comp1</td>
<td>2,44063</td>
<td>2,10765</td>
<td>0,8135</td>
<td>0,8135</td>
</tr>
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Principal components (eigenvectors)

<table>
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<tr>
<th>Variable</th>
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<th>Comp2</th>
<th>Comp3</th>
</tr>
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<tbody>
<tr>
<td>customer_1</td>
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<td>customer_2</td>
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<td>customer_3</td>
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Box 3

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<th>Proportion</th>
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Principal components (eigenvectors)

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<th>Comp3</th>
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<td>-0,8037</td>
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<td>communication_3</td>
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<td>0,2553</td>
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<td>communication_4</td>
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### Box 4

**PCA Revenue**

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<tbody>
<tr>
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<td>2.00264</td>
<td>1.08878</td>
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<td>Comp3</td>
<td>0.660164</td>
<td>0.236825</td>
<td>0.1650</td>
<td>0.8942</td>
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<tr>
<td>Comp4</td>
<td>0.423339</td>
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<td>0.1058</td>
<td>1.0000</td>
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</table>

**Principal Components (Eigenvectors)**

<table>
<thead>
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<th>Variable</th>
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<th>Comp3</th>
<th>Comp4</th>
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<tbody>
<tr>
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<td>0.5440</td>
<td>0.3009</td>
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<td>-0.4009</td>
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<tr>
<td>revenue_3</td>
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<td>revenue_4</td>
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### Box 5

**PCA Growth**

<table>
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<tbody>
<tr>
<td>Comp1</td>
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<td>Comp3</td>
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**Principal Components (Eigenvectors)**

<table>
<thead>
<tr>
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<th>Comp3</th>
<th>Comp4</th>
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<tr>
<td>growth_1</td>
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<td>growth_2</td>
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<td>growth_3</td>
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### Box 6

**PCA Competence**

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<tr>
<td>Comp1</td>
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<td>1.65688</td>
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**Principal Components (Eigenvectors)**

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<tr>
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<td>customer_2</td>
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<td>customer_3</td>
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### Box 7

**pca organisation_1 organisation_2 organisation_3 organisation_4**

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<td>Comp2</td>
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<td>Comp4</td>
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Principal components (eigenvectors)

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<th>Comp3</th>
<th>Comp4</th>
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### Box 8

**pca cooperation_1 cooperation_2 cooperation_3**

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<tbody>
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Principal components (eigenvectors)

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### Box 9

**pca coordination_1 coordination_2 coordination_3**

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Principal components (eigenvectors)

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<tbody>
<tr>
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<td>coordination_2</td>
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<td>coordination_3</td>
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<td>0,8389</td>
<td>0,1343</td>
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</tbody>
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References


Bieger, T., & Lottenbach, D. C. (2001). Airline-Geschäftsmodelle wann schaffen Sie Wert?


References


CV
Magnus B. Resch
Born: 19th July 1984 in Dusseldorf

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2/09 – 12/10 UNIVERSITY OF ST. GALLEN ST. GALLEN, CH
Dissertation: “Management of Art Galleries – Business Models”

1/10 – 4/10 HONG KONG UNIVERSITY HONG KONG
Visiting Research Fellow at the MBA School of Business.

9/07 – 12/08 LONDON SCHOOL OF ECONOMICS LONDON, UK
Double-Degree: MSc Management.

9/07 – 12/08 CEMS MIM STOCKHOLM, SWE
Degree: MSc International Management, Exchange at Stockholm School of Economics.

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10/04 – 5/08 GALERIE | CHRISTIAN ROELLIN ST. GALLEN, CH
Co-managing gallery for contemporary art

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Internship in Consulting division (10 weeks)

9/05 CHRISTIE’S LONDON, UK
Internship in auction department, focusing on photography (4 weeks)

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Internship in Finance department (12 weeks)

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since 4/09 KONRAD ADENAUER FOUNDATION, Scholarship, Germany

since 04 ATP WORLD TEAM TENNIS CHAMPIONSHIP, Board, Germany

since 06 FREELANCE WRITER: FAZ, Rheinische Post, Artinvestor (50’000)