MScSocSc in Management of Creative Business Processes

The "hub transformation" of auction houses

Sotheby's and Christie's business model evolution in a dynamic art market

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Abstract

The thesis has the aim to describe Sotheby's and Christie's business model evolution in the last decade, according to the market dynamics.

The first part presents a selection of relevant academic literature as a foundation for developing the theoretic analysis. The chapter consists of three main parts: Strategy Theory, Business Model Evolution, and Duopoly Theory.

As a second step, a description of the methodology follows: the work reports findings from an inductive, in-depth, longitudinal study of how the business models of Sotheby's and Christie's developed in the last decade.

An understanding of the market and its characteristics is a necessary requirement for the auction houses' strategic comprehension and analysis. For these reasons, the collected data concern information about the art market's competitive environment, the industry background of auction houses, and a description of the most recent strategies implemented by Sotheby's and Christie's.

Finally, the analysis chapter, connecting data and theory, demonstrates that the necessity to innovate in a market characterized by hyper-competition, new technologies and globalization, has pushed to a transformational approach of the houses' business models. This strategic renewal has lead Sotheby's and Christie's to diversify their business, exploiting different market opportunities and becoming a "hub" for the art market. Moreover, the analysis also demonstrates how the companies' strategies have evolved not just following the trajectory of the environment's dynamics, but also in relation to each other, with evidences of interdependence and tactical interaction between the two auction houses.

1. INTRODUCTION

"*The past half-century has seen extraordinary changes in the role the auction houses play in the art market. The most significant is the change from being wholesale clearing houses for the art trade to becoming high-powered selling forces that deal directly with the final user*" (Hook, P., 2013, p.255)

The qualities of art as luxury goods, with high investment return and great social prestige, have made possible the professionalization of the art industry. Auction houses operate in this market as prestigious and renowned institutions and, with the ability to fix optimal prices for works of art, they stand as a point of reference for all the agents operating in the system. The top end of the industry is dominated by Sotheby's and Christie's, constituting a duopoly in the Western Art Market since more than 250 years (Casadesus-Masanell & Wise, 2010). Their coexistence has been characterized by great competition, commission war, cartel scandal and reciprocal switch of key employees, but neither competitor has been able to overtake the other by a notable margin.

In the current economic times, the whole art market has seen some big changes: career-oriented emphasis in art education, globalization and Asian expansion, the development and diffusion of digital, the infiltration of technology in almost all areas of business, transparency of information, innovative marketing and sales strategies and the emergence of new competitors fighting to enter the fine art sales space. In a global context, the 'duopoly state' of the companies is at risk and neighboring market segments emerge. The advance of new competitors strongly affect the duopoly's ability to maintain its high commission structures. In this new market environment, the two houses realized the necessity to innovate to protect their dominance. Consequently, in order to respond to this economic and cultural turning point, Sotheby's and Christie's explore modifications to their business model.

According to Casadesus-Masanell and Wise (2010), some efforts by the two organizations are still in the infantile stage and thus the success of some initiatives is still unproven. The authors stress how it is necessary to understand the process of their business model modification and the future possibilities for the industry. In fact, in the past years literature on auction houses has provided insight into the history of the auction business and how the 'duopoly' have traditionally run their businesses (Learmount, Mason, and Hook) or has focused on sociological (Smith, Heath) and artistic considerations (Graw). Even if the study of these scopes is necessary to understand this type of industry, we need to be aware also of practical managerial issues but, on the economic side, literature is poor. It is possible to find some researches describing the basic of the industry business (Casadesus-Masanell R., Wise C. J.), but definitely lacks a structured overview on the strategic insights that strongly affected the auction houses' business model in the last decade. According to Kumar (November 2014) *"books tend to become out of date when reviewing temporary market developments in companies because these tend to be driven by current economic and political factors".* The aim of this work is to investigate this unexplored field, trying to identify the main changes that have affected Sotheby's and Christie's business models and strategies in the last decade, in a moment in which the art market is experiencing an evolution where challenges and opportunities are different and blurry.

1.1. Research Question and Objectives

In accordance to some researchers, like Casadesus-Masanell and Wise (2010), it seems to be necessary to have a deeper look onto the most recent auction houses' business model modifications. Therefore, the research question that arise and which will be answered in this paper is the following:

How Sotheby's and Christie's business models are changed in the last decade, according to the market dynamics?

- ➔ *What are the current key impact factors and challenges?*
- ➔ *What are the main strategic implications and future possibilities?*

The main question is seeking to understand the way in which the auction houses' business model has changed from about 2008 to nowadays, according to the global market evolution. This is currently a quite relevant issue, since in the last decade Sotheby's and Christie's have revolutionized their company plans to generate revenue and make profits in order to adapt to a fast-paced market. The paper incorporates a study of the case of Sotheby’s and Christie’s since they are considered leader in the Western Art Market and often referred to as the ‘duopoly’ (“The Economist”, 2004; “The New York Times”, 2015). There will be also references to other large international auction houses such as Phillips, Bonhams and Poly International, which represent an increasingly powerful tide of disruption to the traditional running’s of the duopoly. This work wants to be a reflection on the evolution process of these companies, at a time when the art market is rapidly evolving, influencing both the business and the competitive position.

In order to specify and to complete the research, the work will follow two sub questions. The first one focuses on the concepts of impact factors and challenges that auction houses are currently facing concerning business and economic related issues. In fact, *“the market place in which auction houses operate has become extremely competitive, integrated, and sophisticated”* (Kumar V., 2014), posing new questions concerning competition, globalization, the online market, and the changing patterns of global wealth. An understanding of the global context in which the companies operate is a necessary step to understand the challenges they face.

In some way, the second sub-question wants to be an answer to the first one. In fact, the present day challenges faced by modern auction houses need to be an integral part of the strategic address that auction houses are defining. The focus is on ‘strategy’, as a direct consequence of a long-term vision for the business, which is oriented to identify prospects and future possibilities.

To understand the status of the industry and the main strategic issues able to impact on the business model of these auction houses is the only way to identify the critical success factors of such businesses. Only a full understanding of the past and the present can define future scenarios and try to predict which strategic trends will be successful in a market place increasingly global and diversified.

2. THEORY & LITERATURE REVIEW

This part presents the selection of relevant academic literature as a foundation for developing the theoretic analysis of business model changes in market dynamics. This framework permits to contextualize the auction houses' business model changes and evolution, while also considering the competitive strategies implemented in relation with a dynamic art market.

The chapter consists of three main parts: (1) Strategy Theory; (2) Business Model Evolution; (3) Duopoly Theory. The first two parts introduce the notion of strategy and the one of business model, focusing in particular on their dynamic and evolutionary nature. In fact, the permanent environmental pressure leads firms to an ongoing dimension of change, which is object of different theoretic perspectives: such as industrial organization, the strategy process perspective, the transformational approach and the Penrosian view of the firm. The third part on duopoly theory permits to deep the understanding of the decision process that characterizes two companies (that have dominant control over a market) concerning their strategic choices and the mutual interdependency of their business models.

2.1. Strategy Theory

Strategy theory concerns the explanations of firm performance in a competitive environment (Porter, 1991). There are many strategy perspectives, among which three interesting 'paradigmatic' perspectives: resource based view (RBV), industrial organization (I/O), and the strategy process perspective. While both RBV and I/O are interested in competitive advantage and may be seen as content-based approaches to strategic management, the process-based view on strategy focuses on the processes through which strategy contents are created and managed over time. The strategy field is fragmented and proponents of the three fields juxtapose with each other and focus on different aspects of strategy. RBV literature emphasizes the characteristics of the resources of the company, holding numerous descriptions of resource attributes that render competitive advantage. Barney's (1991) summarizes the main ones: value, rareness, and imperfect imitability and substitutability. A firm's resources are valuable if they lower costs or raise the price of a product. Certain resources have a better fit with certain organizations, and hence expectations, and value, are different depending on who is considering resource investment (Barney, 1986). Hedman and Kalling (2003) state that a key RBV attribute is resource rareness, but a valuable, rare resource also needs to be costly to imitate or to substitute to sustain the advantage of the resource. *"A resource that could be acquired at an imperfect market price will only remain a source of advantage as long as competitors fail to realize and materialize the potential. A resource and its outcome can be imitated either by building/acquiring the same resource or by creating the same intermediate or final outcome with a different resource"* (Hedman & Kalling, 2003, p. 51). Barney (1991) affirms that the costs associated with imitation are driven by unique historical conditions, causal ambiguity, and the social complexity of resources.

Whereas RBV states that idiosyncratic and firm-specific sets of imperfectly mobile resources determine which firm will reach above-normal performance, I/O states that environmental pressure and the ability to respond to it are the prime determinants of firm success (Wernerfelt, 1984; Barney, 1991; Peteraf, 1993). Porter (1980) brought in the I/O perspective (Bain, 1968), by claiming that external industrial forces affect the work of managers. Substitute products, customers and suppliers as well as potential and present competitors determine strategic choices, and the two 'generic strategies' are differentiation and low-cost. In "Towards a dynamic theory of strategy", Porter (1991) claims that the low-cost and differentiation advantages that firms enjoy on the product market ultimately stem from a causal relation among 'initial conditions', 'managerial choices' and 'firm success'. Decisions taken affect the so-called drivers (resources or properties such as scale and scope), enabling low cost and/or differentiation. These enable specific strategic positions in markets/industries, allowing, potentially, for firm success. This causal relation is not referred to as a business model, but it incorporates many features that could be included in such a model. In particular, inherent to this model is also the strategy process (as the managerial choices are seen as taking place in a longitudinal dimension), and it encompasses both RBV and I/O, highlighting the complementary causality of the two views.

Concerning the strategy process perspective it is evident how, already in the mid-1970s, a focus on the strategy process, rather than strategy content, initiated criticism of the normative approach of the strategy field (Mintzberg, 1978, 1994; Quinn, 1978). Uncertainty about the future leads to shorter planning horizons, incrementalism, less revolutionary strategic actions, and tentative moves. The pattern of action visible ex post makes up the 'emergent strategy' (Mintzberg, 1978). *"The focus on strategy content such as competitive position (or any other independent content concept, e.g. structure, size, degree of diversification, etc.) and its relation with performance became less interesting compared to research on how firms actually created the favorable positions over time… The focal point of the process perspective is the management of cognitive and cultural constraints on strategic development and firm evolution"* (Hedman & Kalling, 2003, p. 51).

2.2. Business Model Evolution

Adopting the notion of strategy introduced by Porter (1996) according to which *"strategy is the creation of a unique and valuable position, involving a different set of activities"* (p. 68), Casadesus-Masanell and Ricart (2007) affirm that a company's strategy results in a particular set of choices which, together with their consequences, constitutes a business model. In other words, a strategy is a (contingent) plan of action, one where the elements of choice are policies, assets, and governance structures. The company's business model is a reflection of its strategy.

Nowadays, business model innovation is becoming one of the main forces driving strategic renewal efforts of businesses around the world (Casadesus-Masanell & Ricart, 2007). The reasons for the renewed interest are clear: on the one hand, the competitive environment is becoming increasingly complex, giving rise to hyper-competition (Thomas & D'Aveni, 2004), which is characterized by difficulties in sustaining competitive advantage as new business models substitute for established ways to compete. In addition, the recent revolution in information and communication technologies opens broad opportunities to configure choices in radically different ways (Malone, 2004). Moreover, other forces such as globalization and deregulation fuelled interest in this field (Casadesus-Masanell & Ricart, 2007). IBM's 2006 "Global CEO Study," for example, shows that top management in a broad range of industries, because of the increasing competitive pressure, are actively seeking guidance on how to innovate in their business models to improve their ability to both create and capture value. Most academics working in this area agree that, in order to be effective in such 'different' environments, companies need to develop novel business models (Prahalad & Hart, 2002; London & Hart, 2003).

While the term "business model" has flourished in the managerial literature since the end of the 90s, there is no widely accepted definition of what it really means. Some refers to it as the description of the articulation between different business models components or 'building blocks' to produce a proposition that can generate value for consumers and thus for the organization (Tikkanen, Lamberg et al., 2005). Other definitions, like Applegate's one (2001), are more specific, defining a business model framework consisting of three components: concept, capabilities, and value. More precisely, the business concept defines a business market opportunity, products and services offered, competitive dynamics, strategy to obtain a dominant position, and strategic option for evolving the business. Capabilities are built and delivered through its people, organizational structure, culture, but also marketing, sales, management, development and infrastructure models. Finally, the value of a business model is measured by its return to stakeholders, return to the organization, market share, brand, reputation, and financial performance.

According to Demil and Lecocq (2010) two different uses of the concept can be identified. The first refers to what we might call a static approach, which insists that the important word in the expression is 'model', and thus on the coherence between its core components. In this view, a business model synthesizes a way of creating value in a business (Amit & Zott, 2001) and helps to describe how an organization functions and generates revenues. The second use of the concept represents a transformational approach, which explain the evolution of the business model, connecting it to the concepts of change and innovation. In this approach, a sustainable business requires progressive refinements to create internal consistency and/or to adapt to its environment. As Winter and Szulanski (2001) argue: *'The formula or business model, far from being a quantum of information that is revealed in a flash, is typically a complex set of interdependent routines that is discovered, adjusted, and fine-tuned by 'doing''* (p. 731). Also according Casadesus-Masanell and Ricart (2007), the concept of business model is intrinsically dynamic. In fact, they affirm that a business model consists of a set of choices and the set of consequences arising from those choices, and the relationship between choices and consequences occurs over time.

Demil & Lecocq (2010) reconcile the static and transformational approaches to address the question of how a business model evolves building on the concepts of the RCOV framework and a Penrosian view of the firm. First, they identify the business model's component parts corresponding to the static approach assuming that a business model can be described through the RCOV framework, which identify three core components: its resources and competences (RC), its organizational structure (O) and the value proposition (V). In particular, the organizational structure includes the value chain of activities and the value network (the web of relations its creates with external stakeholders), while the propositions for value delivery reflects the content of the transactions with customers and the idiosyncratic deployment of resources of the organization.

On the other side, Demil and Lecocq (2010) study the transformational approach through Penrose's work, which underlines an ongoing dimension of change as a permanent state and a dynamic growth of organizations. Penrose (1959) argues that the growth of the firm results from the interaction between its resources, its organization and its capacity to propose new value propositions in markets. In fact, the importance of firm's resources lies in the ‘services of resources’, the bundle of possible services an organization’s resources can produce, which finally depend on its management’s capacity to extract value from their use and to create innovative combinations. Here, Penrose distinguishes between the operational and entrepreneurial capacities of management. The first concerns the way such services support the organization’s normal ongoing regime, and involves improving the exploitation of organizational resources and the deepening of its accumulated knowledge. The second encompasses new combinations between the ‘services of resources’, the creation of opportunities to use the resources or the motivation to acquire and/or develop new ones. “*The resources accumulated over the organization’s history will be continually reacting with each other, and with other constituent parts of the firm’s structure and sharing the same path-dependency, in unique combinations that will vary within the firm, and which produce and determine the firm’s idiosyncratic bundle of capabilities that differentiate it from others in its sector*” (Demil & Lecocq, 2010, p. 230). The collection of accumulated resources, and their articulation by the organization’s management, can enable it to envisage new productive opportunities and to propose new products or services into its markets. Therefore, there is a notion of ‘permanent disequilibrium’ at the heart of Penrosian thinking, which push to discover new services of resources that can lead on to new value propositions (product innovation), or to exploit existing resources more efficiently (process innovation).

However, as noted by Mintzberg (1978), there are risks to having an exclusively intended and deliberate view of strategy, which would imply that an organization’s business model is only the result of its management’s purposeful and specific design decisions. In reality, organizational evolution may be more dependent on the environment or happenstance than on deliberate management choices. Casadesus-Masanell and Ricart (2010) state that the competitiveness of a firm is related to how its business model interacts with the environment and with those of other industry participants (such as customers, suppliers, competitors). *“Exogenous environmental shifts and strategic and tactical moves by other industry players affect the capacity of the firm to continue creating and capturing value”* (Casadesus-

Masanell & Ricart, 2010, p. 1). Finally, Demil and Lecocq (2010) contend that, as strategy, a business model may evolve in response to both external and internal factors, as a fine-tuning process involving intended and emergent changes both between and within its core components. They found that the sustainability of an organization depends on its ability to anticipate and react to the consequences of evolution in any given component and they label the capability that allows a firm to change its business model while at the same time building and maintaining sustainable performance as 'dynamic consistency'.

In this context, we can conclude that companies experiment and learn to change and transform their business models to adapt to the needs of complex new competitive environments (Rindova and Kotha, 2001).

2.3. Duopoly theory

Even interaction between two organizations can have an impact on their business model (Casadesus-Masanell, & Ricart, 2007). Two organizations interact when they affect one another, in particular when their performance depends on the presence of the other. Interaction can happen with different actors like competitors, suppliers, and complementary organizations. Moreover, interaction may entail competition or cooperation and both may be for value capture or for value creation. *"Business models of two companies are interdependent when some consequences are common to both companies' models. In other words, the business models of two companies are interdependent when they "touch" each other"* (Casadesus-Masanell & Ricart, 2007, p. 16). Casadesus-Masanell and Ricart (2007) explain how, since "strategy" refers to the process of crafting an organization's business model, hence, "strategic interaction" refers to how changes in a company's business model affect the working of another company's business model. *"Strategic interaction is concerned with the choice of policies, assets, and governance structures. And while organizations do not affect each other directly through changes in their business models, there is an indirect effect through the resulting business models as new intensity levels of* *interdependence and tactical interaction ensue*" (Casadesus-Masanell & Ricart, 2007, p. 19). In this case, duopoly theory can give a more specific overview on the issue.

Duopoly theory has a long history in economics, especially in the field of industrial organization, where is the most commonly studied form of oligopoly. A duopoly (from Greek duo δὐο (two) + polein πωλεῖν (to sell) is a specific type of oligopoly where only two producers exist in one market. However, in reality, this definition is generally used where only two firms have dominant control over a market. A duopoly can have the same impact on the market as a monopoly if the two players collude on prices or output, resulting in consumers paying higher prices than they would in a truly competitive market.

The strategic decisions, in case of a duopoly, are characterized by uncertainty, which revolves around the interrelationship of the two firms and the fact that the decisions of one of them affect the other. Cyert and De Groot (1970) state that adaptive models should be applied. An adaptive model is one in which a firm can learn (with regard to other firms, to the environment, or both) and, thereby, modify its previous behavior. The important point in relation to conventional theory is that an adaptive model is not restricted to a fixed reaction function, but the firm is able to change its assumption about the way in which its rival will respond to any changes the firm will make in the decision variable. Bush and Mosteller (1955) define learning as follows: *"We consider any systematic changes in behavior to be learning whether or not the change is adaptive, desirable for certain purposes, or in accordance with any other such criteria"* (p. 3). In duopoly theory learning concerns the behavior of rivals and, according to Cyert and De Groot (1970) it involves the following three assumptions: *"(1) The entrepreneur (manager) of the firm starts with an a priori probability that his rival is going to behave in a particular way with respect to his decision making. (2) He observes the actual behavior of his rival in making a decision either in response or simultaneously. (3) He incorporates the results of his experience by modifying his original a priori probability, and the process is then repeated"* (p. 1176). The learning that takes place within the firm can be viewed as falling into two categories:

the adaptation in the internal processes of the firm and the adaptation to interfirm learning. According to Cyert and De Groot (1970) firms are able to follow the Bayesian's process in making decisions in an oligopolistic market and are able to learn from their experience. This learning implies the observation of the reactions of the firm's rivals to its actions, and the gathering of information from the environment. The information comes from participants in the organization who are interacting with the environment (either in their official organizational roles or as individuals) and this information is generally about rival firms' plans and market behavior. Salesmen and managers are an especially fruitful source of information of this kind, since their information comes from interactions with customers who have been in contact with salesmen of other firms, and the information is most frequently about price or related selling conditions of the product such as credit terms.

Finally, other important topics to consider in this context are the issue of market growth, investments and collusion. In fact, in a market with strategic competition, investment confers a great capability to take advantage of future growth opportunities, leading to the capture of a greater share of the market, either by dissuading entry or by inducing competitors to ‘make room’ for the stronger competitor (Kulatilaka & Perotti, 1998). Trigeorgis (1991) studies the impact of competition on the optimal timing of project/investment initiation. In the absence of competition and other costs of waiting, an incumbent firm would delay project initiation. However, as recognized in the literature, the presence of competition may speed up a firm’s planned investment. Boyer, Lasserre, Mariotti and Moreaux (2004) study a simple duopoly model of preemption with multiple investments and instantaneous price competition on a market of finite size, while paying particular attention to the role of uncertainty and the speed of market development on investment strategies and competition. The study shows that in such a context, market growth can affect collusion opportunities: there is an expected market growth rate above which tacit-collusion equilibria exist. It is reported that collusion is more attractive to firms of equal size in the sense that, when collusion equilibria exist, if firm are of equal size there is joint profits maximization. Smith (1973) interestingly assumes a connection between profit maximization and price fixing. In fact, protracted stability in the market is an unachievable ideal: the appearance of new competitors, technology innovations, along with changes in government policy, are constant threats to price (Austin A., 2004) and, according to Smith, the alternative response could be the effective safety net-price fixing. Moreover, tacit collusion can also take the form of postponed simultaneous investment by both firms. In particular, as reported by Huisman and Kort (1998), nowadays one of the main elements that determines economic growth is the diffusion of new technologies and, one of the most crucial decision for a firm is that of investing in new or improved equipment and facilities. Nair (1995) states that: "*these decisions are not only important because of the large initial capital costs involved, but also because of its impact on the firm's performance for many years into the future*". However, analyzing technology adoption in the context of a duopoly, Huisman and Kort (1998) show that if the profit stream belonging to the preemption equilibrium is low, both firms could decide to not undertake the technology investment.

2.4. Theory summary

Nowadays, business model innovation is becoming one of the main forces driving strategic renewal efforts of businesses around the world. In fact, the environment context, which is characterized by hyper-competition, new technologies, globalization and deregulation, is pushing for a new need of innovation, a transformational approach of the concept of business model. Demil and Lecocq (2010) study the transformational approach through Penrose's work, which underlines an ongoing dimension of change as a permanent state and a dynamic growth of organizations. Moreover, a longitudinal process component is included also in the business model developed by Hedman and Kalling (2003), demonstrating the relevance of time dynamics of the business model and the cognitive and cultural constraints that managers have to cope with. This transformation of the business model happens in relation with different factors. Primarily, the company’s business model is a reflection of its strategy. Strategy theory, which concerns the explanations of firm performance in a competitive environment, results in a particular set of choices concerning policies, assets, and governance structures which, together with their consequences, constitutes a business model. Strategy theory is characterized by three main perspective: resource-based view (focus on idiosyncratic and firm-specific resources); industrial organization (focus on environmental pressure and ability to respond to it); process-based view (focus on process, not content, and the concept that a favorable position is created over time). Consequently, as strategy, a business model may evolve in response to both external and internal factors, as a fine-tuning process involving intended and emergent changes both between and within its core components. Demil and Lecocq (2010) found that the sustainability of an organization depends on its ability to anticipate and react to the consequences of evolution in any given component and they label the capability that allows a firm to change its business model while at the same time building and maintaining sustainable performance as ‘dynamic consistency’. But the competitiveness of a firm is related not just to how its business model interacts with the environment, but also to how it relates other industry participants’ business models (Casadesus-Masanell & Ricart, 2010). In particular, when changes in a company’s business model have consequences on and/or affect another company’s business model, we can say these two companies are interdependent and there is “strategic interaction” (Casadesus-Masanell & Ricart, 2007). Consequently, if two firms have dominant control over a market, strategic decisions are taken in a duopolistic context, which revolves around the interrelationship of the two firms and the fact that the decisions of one of them affect the other (Cyert & De Groot, 1970). In this case, the business model evolution is strongly influenced by a strategy that follows the lines of duopoly theory concerning different topics such as decision making, market growth, investments and collusion.

3. METHODOLOGY

In this chapter the methodology used will be discussed. This thesis reports findings from an inductive, in-depth, longitudinal study of how the business models of Sotheby's and Christie's developed in the last decade.

The process of induction involves drawing generalizable inferences out of observations. In other words, with an inductive stance, theory is the outcome of research. As an inductive study, the research strategy chosen is qualitative. According to Bryman and Bell (2015), qualitative research usually emphasizes words rather than quantification in the collection and analysis of data. Moreover, it emphasizes the ways in which individuals interpret their social world, so that its epistemological orientation can be described as interpretivist. On the other side, the ontological orientation in qualitative research tends to constructionism, which implies that social properties are outcomes of the interaction between individuals, rather than phenomena 'out there' and separate from those involved in its construction (Bryman & Bell, 2015).

For what concerns the longitudinal design of the study, it is helpful in mapping changes in business and management research. Pettigrew (1990) has emphasized the importance of longitudinal study in understanding organizations as a way of providing data on the mechanism and processes through which changes are created. In this specific research, the case study of Sotheby's and Christie's has been chosen to provide an in-depth elucidation of the complexity and particular nature of these two companies and their evolution. The longitudinal element is injected in the analysis through the study of data that cover a specific time interval, the last decade. The benefit of a longitudinal study is that is able to detect developments or changes in the characteristics of the target, extending beyond a single moment in time. As a result, it can establish sequences of events and is particularly adapt to describe business model evolution.

3.1. Data Collection

According to Kumar (November 2014), it is necessary *"to turn to (…) present sources to understand the key challenges facing auction houses"* like *"the Art Newspaper, analyses from well-respected business reports, and an in-depth look at Sotheby's annual report"*.

In this study, the main source for data collection were newspaper articles in trade magazines, such as "The Art Newspaper", "Art Tribune", "Art Tactic", "Art Forum", but also "The Economist", "Bloomberg", "Financial Times" and "The NY Times". These sources have permitted to develop a longitudinal analysis and a collection of relevant and recognized data through the specific time interval object of the study. Following Ventresca and Mohr (2002), archival data were also used, such as reports by consultants and researches by academics. Another important contribution has been given by specialized art market reports published every year by institutions such as Artprice and TEFAF, which have unique access to fine art auction information and an extensive database. Furthermore, press articles, documentaries, catalogues, and websites related to the auction field were analyzed. Some of this material was retrieved from the respective homepages of the two companies, and other Internet websites, including documents such as the annual report, publications and press. The collected data are in English, Italian and French.

In order to complete the research, it was necessary to conduct some in-depth interviews with some field experts and professionals. To identify them, it was possible to rely on a snowballing technique, soliciting suggestions on who else to interview from respondents. The interviews were conducted from August to September 2016. All interviews lasted about thirty minutes and were conducted following a semi-structured interview guide.

- SECONDARY DATA: recent topic-related studies, articles, reports, researches, etc.
- PRIMARY DATA: qualitative in-depth interviews to professionals of the field.

3.1.1. Secondary Data

This chapter will be concerned with a fairly heterogeneous set of sources of data, such as reports, researches, studies. These documentary sources can be used in qualitative business and management research even if they have not been produced for the specific research, but they need to be assembled and analyzed. The search for relevant documents can be a complicated process and the subsequent analysis requires considerable interpretative skills. Consequently, in order to assess the quality of the sources, it was necessary to rigorously gauge the selected documents against four specific criteria, as defined by Scott (1990): authenticity (is the evidence of unquestionable origin?); credibility (is the evidence free from distortion?); representativeness (is the evidence typical of its kind?); meaning (is the evidence comprehensible?).

The very heterogeneous group of sources used in this study are all relevant for a business and management research, but they present diverse significance and characteristics. First of all, organizational documents such as annual reports, mission statements, reports to shareholders, press releases, advertisement and public relations material are often in the public domain and can provide valuable background information about a company, its organization and its history. In particular, since documents can offer at least partial insights into past managerial decisions and actions, they can be very useful in building a 'timeline' in processual studies of organizational change, which is this case. Such documents need to be evaluated using Scott's four criteria. Organizational documents are likely to be authentic and meaningful, in the sense of being clear to the researcher, even though the analyst should not be complacent. Issues of credibility and representativeness require more attention, since not always these documents are accurate representations of the situation studied.

Another important source of information for this study are mass media outputs. Newspaper articles published in the popular or specialized press are relevant and up-to-date sources for business and management researches. Concerning Scott's criteria, authenticity issues are sometimes difficult to establish in the case of mass media outputs. While the outputs can usually be considered genuine, the authorship of articles is often unclear, so that is difficult to know if the account can be relied upon as being written by someone in a position to provide an accurate version. Credibility is also frequently an issue, while representativeness is not because of the certainty of the corpus from which a sample has been drawn. Also the evidence criteria is usually comprehensible and clear but may require considerable awareness of contextual factors relating to the organization (such as information concerning share price, merger speculation, etc.).

Finally, some virtual outputs as the documents that appear on the Internet were used as sources. This area is rapidly growing because of the vastness of information that can be find on the Internet and their accessibility. However, authenticity and credibility are important issues to keep in mind, especially in this case, because information may be given by non-authority sources or could be strongly distorted. Given the constant flux of the Internet, it is difficult to know how representative websites are concerning a specific topic, since their content is dynamic and may be updated very often. It is particularly important therefore to record the date on which a website is consulted and to print out relevant content in case it changes. Concerning the meaning, in some cases it can be difficult to comprehend without insider knowledge on 'webspeak', words and phrases that are unique to communication on the world wide web.

As stated before, the search for relevant documents can be a complicated process and the subsequent analysis requires considerable interpretative skills, but it is possible to approach documents interpretation in a systematic way. Qualitative content analysis, in fact, comprises a searching-out of underlying themes in the material being analyzed. Altheide (1996) outlines a particular approach, the 'ethnographic content analysis' (ECA), which represents a codification of certain procedures that might be viewed as typical of the kind of qualitative content analysis. This approach differs from traditional content analysis in the constant revision of the researcher on the themes that are distilled from the examination of documents. *"ECA follows a recursive and reflexive movement between concept development-sampling-*

data, collection-data, coding-data, and analysis-interpretation. The aim is to be systematic and analytic but not rigid. Categories and variables initially guide the study, but others are allowed and expected to emerge during the study, including an orientation to constant discovery and constant comparison of relevant situations, settings, styles, images, meanings and nuances" (Altheide, 1996, pp. 16). Thus, with ECA there is a constant movement and connection between conceptualization, data collection, analysis and interpretation, with a great potential for refining concepts.

3.1.2. Primary Data

According to Boyce and Neale (2006), in-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular situation. In-depth interviews are useful when you want detailed information about a person's thoughts and behaviors or want to explore new issues in depth. Interviews are often used to provide context to other data (such as outcome data), offering a more complete picture of a particular situation. It is important to note that, in qualitative research, no single interview stands alone: "*It has meaning to the researcher only in terms of other interviews and observations*" (Whyte, 1953, p.22).

The primary advantage of in-depth interviews is that they provide much more detailed information than what is available through other data collection methods (such as surveys), and they also provide a more relaxed atmosphere in which to collect information (people may feel more comfortable having a conversation as opposed to filling out a survey). However, there are a few limitations and pitfalls. First of all, they can be enormously time consuming, since interviews require time to be conducted, transcribed, and analyzed. Moreover, the interview responses and the researcher analysis might be biased or influenced by personal idiosyncrasies. Every effort should be made to design a data collection effort, create instruments, and conduct interviews to allow for minimal bias. Finally, generalizations about the results are usually not able to be made because small samples are chosen and random sampling methods are not used. In-depth interviews however, provide valuable information when supplementing other methods of data collection. It should be noted that the general rule on sample size for interviews is that when the same stories, themes, issues, and topics are emerging from the interviewees, then a sufficient sample size has been reached.

The two main types of interviews are the unstructured ones and the semi-structured, but sometimes researchers employ the term 'qualitative interview' to encapsulate these two types. In this particular case, the semi-structured approach will be taken. This approach has been chosen because the investigation has a fairly clear focus, rather than a very general notion of wanting to do research on a topic (which would have required an unstructured interview structure). In a semi-structured interview specific issues can be addressed by the researcher who has a list of question (the 'interview guide') on fairly specific topics to be covered, and, at the same time, the interviewee has a great deal of leeway in how to reply. Questions may not follow perfectly the interview guide schedule, and other questions not included may be asked as the interviewer picks up on things said by interviewees. But, generally, all the planned questions will be asked and a similar wording will be used. As stated in the previous paragraph, a great advantage is that the interview process is flexible. The emphasis should be on what the interviewee views as important in explaining, framing and understanding issues, events and patterns.

The idea of an interview guide is much less specific than the notion of a structured interview schedule. What is crucial is that the questioning allows the interviewer to glean the ways in which research participants view their social world and that there is flexibility in the conduct of the interview. The formulation of the research questions should not be so specific that alternative avenues of enquiry that might arise during the collection of fieldwork data are closed off. The questioning need to cover the areas needed but from the perspective of the interviewees. For this reason, the questions developed for this study are organized in the following way[1]: they are divided

[1] For a detail of the questions see the Appendix.

for topic areas (changes and innovations in the art market, Sotheby's and Christie's strategies, etc.), so that the questions about them flow reasonably well; the topic treated will help to answer the research questions (but are not too specific); the language used is comprehensible and relevant to the people interviewed; leading questions are avoided; in order to contextualize people's answers, information of general and specific kind about them are recorded (such as name, age, gender, position in company, numbers of years employed, etc.).

In the current study three people were interviewed for about thirty minutes. Since time and locations constraints have not permitted a larger amount of interviews, it is possible to argue that the results of the research may present a low amount of reliability: however, since each respondent is expected to provide a great deal of information, the qualitative interview approach is likely to rely on a sample very much smaller than the samples interviewed by a reasonably ambitious survey study. Moreover, the responses obtained by the qualitative study cannot be easily categorized and their analysis will rely less on counting and correlating and more on interpretation, summary, integration. In fact, according to Weiss (1994), the findings of a qualitative study will be supported more by quotations and case descriptions than by tables or statistical measures.

3.2. **Data Analysis**

One of the main difficulties with qualitative research is that it very rapidly generates a large amount of data, relying on prose in the form of documents or interview transcripts. This large corpus of unstructured textual material is not straightforward to analyze. Moreover, unlike quantitative data analysis, is not governed by codified rules. However, it is possible to apply some tactics for testing or confirming meanings, minimizing bias, and ensuring the quality of the conclusions.

In this study, according to Miles and Huberman's qualitative data analysis method (1985), some specific tactics are used for generating meaning from data. The first tactic concerns the noticing of patterns and themes. The human mind finds patterns almost intuitively, we construct them from our observations of reoccurring phenomena. The important thing is to be able to see added evidence of the same pattern and remain open to disconfirming evidence when it appears. Other tactics such as seeing plausibility and clustering the identified patterns help the analyst to subsuming particulars into the general, moving to higher levels of abstraction. Making metaphors, like the preceding three tactics, is a way to achieve more integration among diverse pieces of data but also a way of connecting findings to theory. Counting is also important to identify a theme or a pattern, consequently making a generalization. In that case, it is possible to isolate something that happens a number of times or consistently happens in a specific way. The "number of times" and "consistency" judgments are based on counting. Another tactic underlined by Miles and Huberman is the contrasts/comparisons one. In fact, making contrasts is a pervasive tactic that sharpens understanding, is the classic "method of differences" heuristic. Comparison is a time-honored, classic way to test a conclusion; it draws a contrast or make a comparison between two sets of things (like activities, variables, cases as a whole) that are known to differ in some other important respect. Tactics also help in seeing things and their relationships more abstractly. These include subsuming particulars into the general, noting the relations between variables, and finding intervening variables. Finally, in order to systematically assemble a coherent understanding of data, building a logical chain of evidence and making conceptual/theoretical coherence are good tactics.

To organize the collected data, the study develops a timeline of critical episodes in the trajectory of the companies' strategy and created visual displays (Miles & Huberman, 1984; see analysis chapter). Given the interest in the process of business model evolution, meaningful stages along which to break the data are identified. Traveling back and forth between data and theory, this paper labels concepts and connects them to help explain the process of business model evolution for the two auction houses. In the following section are reported the findings on the stages of the process, its distinctive characteristics as identified through the case analysis, and the mechanisms that drive it (Davis & Marquis, 2005).

4. DATA

4.1. The Competitive Environment: The Art Market

An understanding of the market within which the auction houses operate is a necessary requirement for their strategic comprehension and analysis. A contextualization of their business model needs a clear definition of the most recent events and occurrences in the market. For these reasons, a focus and an overview on the Art Market, its structure, its agents and its operating principles are presented.

4.1.1. General overview and the "Relative Heteronomy" of the Art Market

The Art Market is today an economic sector in its own right and with its own actors, institutions, returns and asset class performances. In the last fifty years the market has become more and more clear and transparent, offering the possibility to analyze and quantify it. Different Art Market reports, as the ones by Artprice or TEFAF, are released every year providing reliable and accurate information, contributing with economic, econometric and sociological analysis, which in the Art Market are just about thirty years old. As reported by TEFAF's 2015 Art Market Report, *"In 2015, the global Fine Art Market stabilized in the West and contracted in China (…). Considering global economic and financial conditions, the Fine Art Market has demonstrated its maturity as a genuine alternative investment channel, with Western art auction generating $11.2 billion"* (p. 1). The fine art market had grown exponentially between 2005 and 2007, with prices for contemporary art increased by an estimated 250 percent (Michaud C., 2008). Even in 2007, when the global financial landscape darkened, the Art Market experienced a record year for auction sales, with $9.4 billion worldwide[2]. In particular, 1,200 works traded above $1 million at auction in the contemporary art sector, which for the first time that year became Sotheby's largest category with sales of $1.3 billion (with an increase of 107 percent compared to 2006). Furthermore, also Christie's saw an increase in sales the same year, with postwar and contemporary art categories netting $1.6 billion, against $822 million in 2006. Many believed that the market had reached a new and promising era, while others thought it was a bubble that would have soon correct itself. The last were right about the bubble, but not about the correction (Horowitz, 2011). The market began to show signs of weaknesses toward the end of 2007, especially when the bad results of Sotheby's Impressionist auction in New York caused a 39 percent decline in the company's stock (Sandler L. & Boroff P., 2007). In a business that had thus far resisted to innovation, the global financial crisis was particularly daunting. Neither Sotheby's nor Christie's had cleared a path for any new direction in which to move. This difficult new phase of the auction houses' business included a strong competition with costly price wars, an inability to leverage technology, and most important, a drastic change in clients' behavior due to the worldwide economic collapse (Casadesus-Masanell R. & C.J. Wise, 2009).

The sensitive reaction that the Art Market started showing at the end of 2007 to the collapse of the global economy, according to Graw (2009), was an indicator of the "*relative heteronomy*" of the art world. Graw developed this concept in relation to Bourdieu's model of *"relative autonomy"*, which describes the field of art as a relatively independent universe. In fact, for Bourdieu, even if external events (such as economic crisis) do usurp on the field of art, they are refracted through the field's specific rules and conditions. However, according to Graw, the external constraints prevail, especially in an age where the prevalent mindset within the art world is driven by economic considerations. The recent financial crisis, that at first seemed did not affect the art market, afterward, had a strong impact on it, in some way confirming the dominant feature of external constraints in the art field. *"Crises have*

[2] Annual sales data provided by Artprice.

traditionally been a breeding ground for apocalyptic visions. When slump is in the air, art market players adjust their convictions accordingly, and in good time. That this mental shift is dictated by economic factors provides further proof that the art world has lost its "relative autonomy", exchanging it for "relative heteronomy". (…) At its heart, this crisis was a crisis of confidence, a lasting blow to confidence in symbolic and market values. Art's claim to value, one might say, revealed its true face – pure abstraction that can collapse at any time. (…) The notion that art has some inherent value is the central (and most productive) illusion of the art market" (Graw I., 2009).

In his book "The Art of the Deal", Horowitz (2011) assumed that the Art Market's numbers in 2007 had been artificially shored up during the bubble by the generous financial arrangements between the auctioneers and their clients. Consignments have been induced by guarantees and purchases have been encouraged by convenient loans and flexible payment schedules. In addition, since receivables were rising for the auction houses from 2007, Horowitz makes a parallel to the ugly fate of the real estate market. *"Though there are clear differences between affluent art buyers and subprime borrowers, collectors, too, can default on payments while even the "best" art held as collateral introduces potentially dangerous balance sheet risks. Unlike stocks, the price of an artwork may never depreciate to zero, but the illiquid nature of the art market means that sudden, distressed sales can bring far lower prices than anticipated"* (Horowitz N., 2011, p. 194). Fortunately, both Christie's and Sotheby's were able to avoid the worst scenario concerning their exposure to guarantees. Sotheby's lost $16 million on them in 2008 but this was relatively minor when set against the wider business operations. In 2008, despite some begin of the year impressive figures (as Christie's $33.6 million sale of Lucien Freud's *Benefits Supervisor Sleeping* in May or Sotheby's $86.3 million on Francis Bacon's *Triptych*, which both set auction price records), cracks began to appear also in the Art Market. Christie's experienced a drop in the U.S. sales, which represented its core clientele, and Sotheby's stock began to slid in mid-September. Contemporary art auctions in November continued the downward trend with terrible results and a relevant number of lots unsold. The auction houses were forced to apply some cost-saving measures at the beginning of 2009. They shed about 20 percent of their staff[3], closed, or restructured, underperforming departments and scaled back on the number of items on offer while encouraging consignors to lower back their reserve prices[4]. Year-end results confirmed the bad trend, with $4.8 billion of worldwide art sales at auction in 2009 (nearly half the $9.4 billion of 2007), and auction contractions in both transactions (-70 percent) and sales (- 59 percent) (Horowitz N., 2011, p. 196).

4.1.2. Art Market's Geography and the concept of Globalization

With the proliferation of art fairs and biennials, contemporary art has reached a global dimension (Velthuis & Curioni, 2015) and, as eloquently exemplified by the title of the last Venice Biennial, "All the World's Possible Futures", art needs to be seen as acting in a global system (Harris 2011). The late 1960s mark the beginning of the international art trade in a global market, which now constitutes the "*cœur même*" of the Art Market (Moulin & Raymonde, 2000). Globalization, cultural miscegenation, the questioning of borders and traditional hierarchies between art forms, are integral and essential parts of our contemporary age.

We cannot deny the existence of some countries and cities with a leading and central role in the market and others with a secondary position. With $650 million turnover from Contemporary Art in 2015, the United States are the unquestionable market leader. New York, which generates almost the entire value of the USA's Contemporary art auction turnover ($631 million in 2014/2015), stands out more than ever as the global capital of the Art Market, specially thanks to its prestige sales. The city is the unchallenged epicenter of the ultra-high end of the market, with just 6% of the global number of lots sold which generate 36% of the global turnover (Artprice, 2015). Therefore, it is not a case that Christie's and Sotheby's hammer their best results in the Big Apple. At its Impressionist & Modern Art sale on 6 May

[3] Data provided by Sotheby's Investor Briefing, March 2010.

[4] The reserve is a price equal to, or less than, the auction houses' published presale low estimate, below which the artwork will not sell if bidding fails to reach this level.

2014, Christie's posted an incredibly low unsold rate of just 11% and the Post-War and Contemporary art sales of 13 and 14 May 2014 generated over $1 billion (Artprice, 2014). The same year, Sotheby's generated in New York its best sale of Impressionist & Modern art, with a result of $370 million of which $90 million for Alberto Giacometti's *Le Chariotand* and $63 million for Amedeo Modigliani's *Tête* (Artprice, 2014).

TOP 10 CITIES BY AUCTION REVENUE

CONTEMPORARY ART AUCTION JULY 2014 – JUNE 2015

Rank	City	Auction Revenue	Sold Lots	Unsold rate
1	New York	$631,286,370	3,379	29.3%
2	London	$407,277,143	3,642	33.6%
3	Beijing	$228,127,283	5,105	29.9%
4	Hong Kong	$146,669,088	1,591	33.1%
5	Shanghai	$52,228,133	1,196	34.4%
6	Nanjing	$33,180,567	1,784	26.3%
7	Paris	$31,047,445	3,954	52.1%
8	Guangzhou	$27,219,573	1,221	30.0%
9	Hangzhou	$17,129,760	235	11.7%
10	Taipei	$13,482,204	364	31.6%

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London posts the world's second best performance in terms of auction turnover and, after New York, is where Christie's, Sotheby's and Phillips generate their best results. In particular, the entire Europe's turnover is largely dependent from London, which in 2014, had a total turnover of $2.8 billion (more than six times the annual turnover in Paris for the same period) (Artprice, 2014). However, different capitals of the market are specialized in different categories. If New York is the capital of Post-War and Contemporary art sales, London is the capital of 'classical' art, the best place to trade masterpieces by artists like Rubens, Raffaello, Giacometti, Picasso, Monet, and all the other prestigious signatures frequently seen in museums. In February 2014, at the London sales of Christie's and Sotheby's, a great number of bidders was present from 44 countries, as declared by Sotheby's. A globalized demand is clearly at the origin of this intensification of buyers which, with their unprecedented diversity, generated historic results.

After London, Paris is the leading auction market in continental Europe. In 2014, the French capital generated a turnover of $425 million, and the highest bid on the Paris market was $16 million, equal to the highest bid in Beijing, the world's 3rd marketplace in terms of turnover (Artprice, 2014).

The city offers very high quality artworks and is specialized in the sale of Asian, African and Tribal Art but also comic art and books. Christie's and Sotheby's presence in Paris is of key importance to maintain the city's positon in the global market, and together they generate a turnover of about €400 million. In order to face the competition with Christie's and Sotheby's, the other major French auction houses like Artcurial, Drouot and Piasa have been searching for alternative sources of income on very specific markets like Comic Art and Design. Moreover, they are recently trying to modify their strategy and image changing their addresses in prestigious and elegant locations that are more attractive to an international clientele.

Other European epicenters meet local, and in some cases, international demand. In particular, Germany is the 3rd European marketplace for art auctions after the UK and France, with good auction results obtained in Munich ($72 million in 2014), Berlin ($67.4 million) and Cologne ($49.1 million) (Artprice, 2014). Concerning the Italian and Swiss market, according to Artprice's Report 2014, *"the bulk of Italy's auction activity takes place in Milan ($48 million) and considering the large number of major collectors living in Northern Italy, it is difficult not to imagine a significant growth potential for the Italian auction market. Meanwhile Switzerland's art sales are mainly focused on Zurich and Bern. These marketplaces see plenty of masterpieces, but remain resolutely immune to speculative impulses".*

After having been the world's first largest market for art in 2010 (Artprice, 2011), China is now the second major country in global contemporary auction. However, in 2015, the country experienced a 23% decline in art sales, dropping to $11.8 billion turnover (with a global market share of 19%) (TEFAF Report, 2015). In this case, the art market major capitals are Beijing, Honk Hong and Shanghai, with respectively $228,127,283, $146,669,088 and $52,228,133 contemporary art auction revenues between July 2014 and June 2015. As the political, economic and cultural center, Beijing is the largest art market in China, also thanks to the governmental promotion of the 'combination between culture and technology'. Moreover, Beijing has the country's major auction houses, among which we have the national China Guardian Auctions and Poly International Auction. However, it is in Honk Hong that we find the world's two largest auction companies, Sotheby's and Christie's, the international Gagosian Gallery, and the famous art fair Art Basel HK, that have further enhanced the atmosphere on the contemporary art market in Hong Kong, placing the city as the fourth largest global art marketplace. China's Art Market is influenced by the Government, which, by withholding export tax on contemporary artworks, solicits international buyers to invest in its domestic market. In particular, the Chinese Government used to restrict its frontiers to international auction houses until 2005, when Christie's allied with Forever (a Beijing auction house) and held a cobranded inaugural sale in November of the same year. Concerning the buying tendencies, most art purchases are domestically focused, with Chinese collectors accumulating pieces by Chinese artists. Not surprisingly, the same trend appears in other developing regions like India, probably as a way of celebrate the collectors' cultural identity. During the countries' economic development, to collect national art reflects a sense of nationalistic pride but also social distinction.

A clear sign of globalization is the spectacular growth rate that we have seen in the last thirty years in emerging markets such as the United Arab Emirates, Russia, India, South Africa, and Brazil. The United Arab Emirates are the hub of the Middle Eastern art trade and concentrate the trade in Dubai and Abu Dhabi. Christie's began conducting modern and contemporary art auction in Dubai in 2006, followed by Phillips de Pury & Company and Bonham's in 2008 and Sotheby's in Qatar in 2009. Even if this market guarantees a favorable tax regime, especially compared to Europe, there is a significant level of censorship. Concerning the Russian art market, we can say that the market is definitely expanding after having suffered years of political sanctioning under communism. Here, the opening of Christie's office in Moscow took place in 2007. Farther, the Indian Market started its developing around 1995, when artists, auction houses, critics, and others defined a new product category, the modern Indian fine art, resulting in worldwide demand and soaring prices (Silverthorne, 2010). South Africa mainly sells local art in Johannesburg and Cape Town. In 2014, the country's auction turnover amounted to $18 million, making the country the world's 24th most important marketplace (Artprice, 2014). Finally, Brazil is another interesting emerging economy, with a new dynamic market of contemporary art, reflected in the steady increase in revenue, the participation of new galleries, art fairs, artists, collectors, and the increasing international participation and recognition of its agents.

4.1.3. The Art World Circuit

As a system strongly based on trust, the Art Market is influenced by social dynamics. The relations between artists, dealers and collectors are often highly personal. Horowitz (2011) talks about the "*art world circuit*" as a place where profit is just one factor in a more elaborate cultural system, which comprehends both economic and cultural capital. This system is in opposition with the mere "*financial circuit*", where profit rules and economic capital stands alone. The objective of utility maximization in the two circuits is definitely conflicting. As elaborated by Velthuis (2005), "*rather than being solely motivated by utility maximization, members of (…) circuits may be inspired by concerns of status, care, love, pride or power. In daily economic life, they not only need to collect information and make decisions on its basis, they also need to make sense of the behavior of the partners they engage in trade relationships with. This behavior may not be universally rational, but it does makes sense within the circuits that economic actors inhabit*". After all, the social universe of the art market is in some way rich of archaic rituals and unusual business practices that go along with the corporate culture. Its economic behavior, maybe quite unusual in the era of capitalism, still presents some characteristics of a system strongly based on exchange. Like in the Kula ritual studied by anthropologist Malinowski in 1922[5], in the art world the objects exchanged are not particularly valuable in their technical or material features, but rather serve to help forge strong and fundamental social connections. In fact, the Kula ritual involved a large-scale exchange of shells, which defined the value of the men who exchange them. In the "The

[5] The Kula exchange is an extremely complex ceremonial exchange system conducted in the Milne Bay Province of Papua New Guinea. It involves a system of visits and exchanges of certain kind of valuables (like shells) among men of reputation.

Social Life of Things", anthropologist Arjun Appadurai argues that every commodity has a potential for a social life that distinguishes it from normal goods and objects. Of course, this social life can take place just in particular contexts and cultural frameworks. To explain this concept Appadurai cites exactly the Kula exchange as a paradigm of *"tournaments of value"*, recognizing *"an agonistic, romantic, individualistic, and game-like ethos that stands in contrast to the ethos of everyday economic"*. In particular, Smith (1989) sees the dimension of *"tournaments of value"* in the auctions logic, in which public contestations of price and ownership take place in dramaturgical performances where ritualistic and behavioral practices are established. Auctions hence become processes that deal with ambiguity and uncertainty by generating prices that are socially legitimated and goods that are socially meaningful: values are established in a specific cultural framework.

Social obligations and tacit knowledge must additionally be accounted in the Art World. Martha Rosler (1997) talks about the "*art scene*" as "*a set of social relations within and around the system of production and distribution constituted by the institutions of the art world whose prominence in the contemporary arena advances and recedes*". In this case, the market is more complex compared to the neoclassical economic analysis. In the art system, personal relations, social boundaries and behaviors are a vital part of the economic logic. To better understand this, we can look at the galleries' habit to "place" artworks with trusted collectors and stipulating a first right of refusal (usually through a verbal agreement, but sometimes also through contract stipulations) should the collector wish to resell the artwork. In fact, dealers are averse to the resale or the auction circuit since they are supporting an artist's career in the long term, and a premature resale of the artworks could be problematic. A collector knows that, if he put a work at auction, he would lose the gallery's trust and probably a future possibility to make other acquisitions. Again, Velthuis (2005*), "my findings suggest that the structure of the art market (…) relies on a dense fabric of mutual gifts and favors: dealers subsidize artists, artists donate works to dealers,* *collectors occasionally buy works to support an artist or a gallery, or enact the role of the dealer's moral and financial banker".*

Moreover, the social circuit in the Art World is a necessary variable in the construction of an artwork's value definition. In fact, a number of factors such as retrospectives in important museums, commissioned artworks by relevant collectors, participations to art fairs or biennials, changes in representing galleries, positive feedbacks by art critics, may influence an artist's reputation and, consequently, his prices. In particular, a factor considered extremely significant in having an impact on an artist's career is his performance at auction. We can say that the re-evaluation of an artist and his artworks originates from museums and art galleries, but the great step in popularity is determined by auction results. Consequently, it is clear how the social circuit plays a relevant role in this direction. The effective promotion of an artist in all the aspects of the art world is crucial. The more effectively an artist and his gallery promote their art to the critics, the curators and the collectors, the greater the demand will be for their works and the higher the prices their art will command at auction.

4.2. Industry background

4.2.1. Secondary Market and main Auction Houses

In the Art Market, Auction houses operate, together with art galleries and art fairs, in the Secondary Market. The Secondary Market, differently from the primary one, deals with artworks that have already been sold, at least once, and often comes in when an artist is highly established and desirable. In this segment prices are theoretically set by the match of demand and supply, in a neoliberal economic logic. Moreover, the good amount of information available contributes to make prices more predictable and stable compared to the primary market, which treat emerging or mid-career artists. However, the dimension of the Secondary Market tends to be smaller than the Primary one. In 2014, it accounted for 48 percent of the overall art market (€24.6 billion), and Sotheby's and Christie's had a combined 42 percent share of the global auction market, with total sales of $14.4 billion (Art Economics, 2015). In particular, Christie's and Sotheby's share 80 percent of the world auction market in high-value art, and an almost absolute monopoly on works selling for over $1 million (Hayden R., 2015). As reported on Sotheby's Annual Report (2015): "*Sotheby's primary competitor in the global art market is Christie's International, PLC ("Christie's"), a privately held, French-owned, auction house. To a much lesser extent, Sotheby's also faces competition from smaller auction houses such as Bonhams and Phillips, as well as regional auction houses and a variety of art dealers across all collecting categories. In the Chinese art market, Sotheby's also competes with Beijing Poly International Auction Co. Ltd., China Guardian Auctions Co. Ltd. and Beijing Hanhai Auction Co. Ltd."* (p. 4).

In 2015, 2014, and 2013, Sotheby's and Christie's together totaled approximately $12.3 billion, $12.9 billion, and $11.0 billion, respectively, of *Aggregate Auction Sales*;

of which Sotheby's accounted for $5.9 billion (48%), $6.1 billion (47%), and $5.1 billion (47%)

and Christie's for $6.4 billion (52%), $6.8 billion (53%) and $5.9 billion (53%).

However, there are more than 4500 auction houses worldwide. In 2014, these were the most important ones according to their financial results (Art Economics, 2015):

1. Christie's $ 8.400.000.000

2. Sotheby's $ 6.000.000.000

3. Poly International $ 980.000.000

4. Bonhams $ 710.000.000

5. Guardian $ 621.000.000

Beside these auction houses, we must also consider Phillips.

To give an idea of the dimension of this market, in 2014, about 1530 lots were sold for over $ 1 million (96 for over €10.000.000) and these lots represented less than 0.5 % of the number of transactions. Globally, only 8% of artists whose works were sold at auction (127,365) reached prices above €50.000. We can definitely say that there is a narrow focus of value, with less than 1% of artists accounting for close to half of the Global Auction Market (Art Economics, 2015).

4.2.2. Sotheby’s and Christie’s: the story of a duopoly

“Ever since they were founded in London in the 1700s, Sotheby's and Christie's have been the Hulk Hogan and André the Giant of auction houses, battling for dominance in the sale of expensive, exquisite things”. Alexandra Peers (April 23, 2007, New York Art) describe in this way the long-running rivalry between the two auction houses that roots back to the days in which they were established.

Sotheby’s was founded in 1744 by the London book dealer Samuel Baker, who got his start selling the collection of Sir John Stanley for a few hundred pounds. Soon new auctions followed, like the sell in 1983 of Napoleon’s library during the exile in Saint Helena. The auction house has expanded over time and it became a U.K. public company in 1977 but, already in 1983, was purchased by the retail tycoon A. Alfred Taubman, who privatized it. Taubman brought in as a “white knight” during a less than genteel takeover battle, and recognized a great potential in the company. However, inside and outside the art world, some people were perplexed about Taubman acquisition: he was unknown in the art circuit and a self-made billionaire whose fortune came from building shopping malls. He introduced new financing and marketing techniques, staging what he described as “high-profile, unapologetically glamorous celebrity sales”. In just seven years, his changes led to a fivefold increase in auction sales; by the 1989–90 season, the house conducted $3.2

billion in sales[6]. Taubman took Sotheby's public in 1988, listing the company's shares on the New York Stock Exchange. Taubman ultimately went to jail for antitrust violations. He was accused of conspiring with Christie's chairman, Sir Anthony Tennant, to fix prices. Sotheby's remained a public company, and its ticker on the stock market was BID.

Christie's beginnings were remarkably similar to Sotheby's. Christie's was founded in 1766 by James Christie, who held his first sale on December 5 in his "Great Rooms" on London's Pall Mall, offering items including two chamber pots and two pillowcases. By 1778, James Christie had moved on to art auctions, and arranged the sale of Sir Robert Walpole's collection of pictures. Christie's soon established a reputation as a leading auction house, and took advantage of London's new found status as the major center of the international art trade after the French Revolution. Christie's was a public company, listed on the London Stock Exchange from 1973 to 1999, when it was bought by French luxury goods magnate and art collector, François Pinault, and became private. Since the privatization, the company has not been reporting profits, though it gives sale totals twice a year. Like Sotheby's, Christie's became increasingly involved in high-profile private transactions, selling only the finest art objects, furniture, jewelry, among many other categories.

An old adage has it that Sotheby's is a company of businessmen playing gentlemen and Christie's a company of gentlemen playing at being businessmen. There is no doubt an element of truth to this characterization of the style of these two auction houses, the first now owned by Americans and the second by Frenchmen. However, the competition between the two companies has always been more than a matter of style. The auction business is an interesting example of an industry where the cost of building a reputation may act as a significant entry barrier to new competitors. As highlighted by Daniel Loeb, Sotheby's shareholder, one of the biggest problems facing the two auction houses is that, in the hunt to capture market share, they often tank their own commissions. Philip Hoffman, a former

[6] Details at: http://www.sothebys.com/it/news-video/blogs/all-blogs/the-collection-of-a-alfred-taubman/2015/10/a-alfred-taubman-visionary-collector-art-market.html

Christie’s executive, described clearly the logic of this competition, saying that *“Sotheby’s will think, ‘If we don’t do it, Christie’s will,’ and vice versa”* (Bloomberg, June 22, 2015).

According to Casadesus-Masanell R. and C.J. Wise (2010), *“the auction business was a true duopoly, with Sotheby’s and Christie’s consistently commanding almost 98% of fine art auction revenues each year. The remaining small percentage was dispersed among regional players and smaller international operations with comparatively weak brands at lower price points”*. The nearest competitor was Phillips de Pury & Company, founded in London in 1796 by Harry Phillips, formerly senior clerk to James Christie. However, the firm could not match the cache of Sotheby’s and Christie’s and limited itself to a few areas such as photography, contemporary art, and jewelry. Its total sales revenues in 2008 totaled only $308 million, which were quite low in comparison with $5.3 billion and $5.1 billion of Sotheby’s and Christie’s for the same year. An even smaller rival was Bonhams and Butterfields, established in London in 1793 by Thomas Dodd, a renowned antique print dealer, and Walter Bonham, a book specialist. The company sought to distinguish itself by highlighting its equally old establishment and by marketing to those who saw art as an investment. Nowadays, for these smaller auction hoses, it is difficult to follow all the new initiatives of Christie’s and Sotheby’s. For example, Phillips, even with plans for new departments and geographic expansion, faces the daunting challenge of penetrating the high end of the market, where profit margins are notoriously slim. According to Philip Hoffman, founder and chief executive of the London-based Fine Art Fund Group, *“It’s incredibly difficult to break into that duopoly of Christie’s and Sotheby’s. They’ve attracted the best experts that money can buy, they’ve got huge departments and offices all over the world, they’ve got massive client reach from their historical records. Why would you sell a $5 million lot with the number-three auction house when you have the choice of number one or number two?”* (Art+Auction, March 2013).

At the beginning of 2000, an international scandal came out on charge of the two auction houses, accused of collusion in fixing sales commissions. According to the European Commission, Sotheby's and Christie's entered into an anti-competitive cartel agreement in the course of 1993 (which lasted until early 2000) with the purpose of reducing the fierce competition. The two companies were forced to pay a total of $512 million to settle claims by buyers and sellers that they'd been cheated. Moreover, Alfred Taubman, Sotheby's chairman at the time, spent 10 months in jail was fined $5.4 million.

The competition took place also geographically. During all their business history, wherever one player was going, the other was following. In fact, Sotheby's and Christie's have primary salerooms in New York and others around the world and these locations were apparently determined by the number of high-net-worth individuals in the area; for this reason the two players established their salerooms in the same spots.

Even the specialists are often people from the same circle, sometimes switching from an auction house to the other in an attempt to leverage their particular skill for a higher wage. In fact, they are considered important not only for their expertise and talent for networking, but also for their knowledge of the competition's strategy or its action plan regarding a high-profile client or consignment.

Nowadays, the two firms have broadly similar overheads. Each employs between 1,600 and 2,000 people and between them they hold nearly 750 auctions a year in more than 80 categories, some significantly less profitable than others. Together, these two auction houses run more than 140 offices in 40 countries and have 22 salerooms (The Economist, 30 January, 2016). Recently, also the competition is increased: there are a lot of money at stake. In 2014 the sales of art worldwide surged to €51 billion, according to the European Fine Art Foundation, and both auction houses also saw record sales. Sotheby's has also endured a battle with activist shareholders such as Daniel S. Loeb, founder of the hedge fund Third Point, and Mick McGuire, founder of Marcato Capital Management, who accused the company of being *"asleep at the switch"* and falling behind Christie's in Asia and online (Bloomberg, June 22, 2015). These complaints referred also to the poor returns on capital of the company and committed Sotheby's to buy back $250 million of shares (Reyburnaug S., August 17, 2015). The consequences of the battle with the shareholders brought also to the departure in November 2014 of the chairman and chief executive of Sotheby at the time, William F. Ruprecht. In his place, the company installed Tad Smith, the former CEO of Madison Square Garden, in order to embark on a makeover of the company. Smith said to be focused on building Sotheby's brand, expanding the house in Asia and opening offices in new wealth centers around the world, boosting its Internet business and online presence, developing auctions for lower-priced works, and expanding into categories beyond art, such as jewelry and wine, vowing also to tread carefully with guarantees (Bloomberg, June 22, 2015; CNBC, October 27, 2015).

Concerning Christie's, from 2010 the company had as CEO Steven Murphy, who invested $50 million into Christie's online auction platform and expanded its presence in Asia but left in December 2014, just two weeks after Ruprecht left Sotheby's. The reasons of the departure were not declared, but some people said that Murphy left because he sacrificed profit for the sake of gaining market share through excessive use of guarantees (Bloomberg, June 22, 2015). Patricia Barbizet, former chairman of Christie's and a longtime Pinault adviser, took his place.

4.3. Strategies

4.3.1. Market Segments

In the last decade, Christie's and Sotheby's started following quite different strategies. If Sotheby's started placing less emphasis on market share, focusing on the high end of the market, Christie's concentrated on both high-end and middle-market sales to reduce its fixed costs per sale.

-Sotheby's: Focus on the high-end of the market. This process started already in the 90ies when the current CEO Michael Ainslie, made a sweeping executive decision: to stop selling things under a thousand dollars. In this way, Sotheby's was declaring a new strategy focused exclusively on the high end of the market. Between 2002 and 2007, it reduced the number of its auction transactions from 160,000 to 85,000 and the average value of work sold increased from $35,000 to $50,000 over the same period (Hayden R., 2015). In 2007, the auction house's annual report reinforced again the strategy stating: "*To that end, in March 2007, we announced our intention to increase our per lot minimums to $5,000 so that we could reduce volume, as quantity is not a driver to our success*".

-Christie's: focus on both the high-end and middle-market. Christie's concentrates on both high-end and middle-market sales to reduce its fixed costs per sale. Don Thompson, in his book "The $12 Million Stuffed Shark", states: *"Bill Ruprecht, chief executive of Sotheby's, describes his strategy as a Porsche, and Christie's as a more mass-market Volkswagen*" (2008, p. 100). In fact, if Christie's had an average lot value of $35,000 in 2007, Sotheby's estimated average lot value was of $50,000 (Thompson D., 2008). In more recent years, Christie's strategy is bringing the profile into a more consumer oriented one, *'the art of people'* (Ryan E., Interview). However, former Christie's CEO, Ed Dolman, claimed the real difference was not market size but Christie's speed and flexibility: *"We are a private company, the owner Monsieur Pinault is one of the world's great collectors, we are able to access the risk factor and take quick decisions"* (Thompson D., 2008, p. 100).

4.3.2. Sales' themes and Departments

Organizing an auction sale is an art, and the choice of a sale's theme is an important part of the process. A theme may be a particular period, an art movement or a specific artistic medium, and its choice can impact the way the sale is conducted, the customers' attention, and the sale's financial outcome.

-Post-War & Contemporary (Christie's) vs. Impressionist & Modern (Sotheby's). According to Artprice (2014), until 2013, the highest totals from single-session auction sales were generated by sales of Impressionist & Modern Art, which have a specific department at both Christie's and Sotheby's. Christie's New York sale of Impressionist & Modern Art in

November 2006 totaled a record of $418 million. However, in 2013, and again in 2014, four Post-War & Contemporary Art auction organized by Christie's substantially stretched the 2006 record. In particular, in November 2014, the sale of just 75 lots generated $604 million (Artprice, 2014). The last results explain why today the prestigious London-based auction house seems to have made Post-War & Contemporary Art its strategic priority, leaving Sotheby's to generate the best sales total from Impressionist & Modern Art.

-**Major collections**. Sales involving important collections always attract the attention of the media and collectors and, in particular, their results often overshoot estimates. This is the reason why Sotheby's and Christie's often strongly compete to bag the best collections. For example, in 1983, the Gould collection of late 19th and early 20th century paintings (estimated to be worth more than $25 million) has been the subject of a dispute between the two auction houses. In trying to win the consignment, both of them proposed unprecedented series of concessions, but at the end Sotheby's prevailed thanks to its offer to slash the seller's commission to zero. Considering most recent times, in 2014, the most impressive ensemble of works was undoubtedly the selection from Mrs. Paul Mellon's collection, which totaled $110 million with just 43 lots at Sotheby's New York sale. On 13 October 2014, Christie's organized the Essl family collection sales in London. Among the Contemporary and Post-War gems in the sale's, some substantially exceeded the expectations. Works by Lucio Fontana, Georg Baselitz, Alighiero Boetti and Frank Stella, posted an average price gain of 1,400% over a period of less than a generation (Artprice, 2014). There can be no doubt that apart from the quality of the works themselves, this success was partly related to the collection constituted by the Essl family. Currently[7], Sotheby's is organizing for November 2016 the personal art collection sales of the legendary musician David Bowie, who died last January. It will be a three-part sale encompassing more than 200 works by many of the most important British artists of the 20th Century, including Frank Auerbach, Damien Hirst, Henry Moore, and is estimated to be worth more than $13 million.

[7] July 2016

- Sotheby's Collector Car Auctions. In March 2015 Sotheby's re-entered the market for classic cars, one of the few luxuries Christie's does not regularly sell. The auction house did a partnership with RM Auctions, a global leader in the collector car industry, and in May of the same year they sold a 1962 Ferrari 400 Superamerica SWB Cabriolet for $7.6 million (The International New York Times, August 17, 2015).

- Christie's Interiors Department. In 2002, Christie's began holding auctions called House Sales, then rebranded Christie's Interiors, aimed at decorators or "the middle market" (Maneker M., 2007). These sales offered fine arts, furniture and decorative objects in every style, from antique to contemporary. In particular, prices are attractive, starting from $500. These lots were all included in a single oversized catalog referred to as a "magalog", which contained very small images and brief descriptions but no condition reports. The New York Sun (July 2016) reported that *"it speaks to Christie's ambition to expand beyond connoisseurship and become something closer to a global lifestyle emporium".*

The Interiors sales are definitely a way to broaden the auction house's customer base, serving its customers' interests with new departments. In particular, the development of the Interiors department has been implemented in strict connection with the online strategy. In fact, when Christie's wanted to try out its LIVE system that links the Internet to traditional hammer-and-cry auctions, it began with the House sales. The company is aiming to expand its customer base by uniting all the different art capitals and collectors with the Internet bidding system. According to Ms. Barnhart, Christie's U.S. regional director, *"the interiors concept has been very successful in getting the message out and proving to people that it fits in with the Christie's brand"*.

- A new creative sales concept: 'Curated' auctions. In order to appeal to new audiences and fuel interest, auction houses have come up with novel ways of selling art and the curated sales is the latest trend. While auctions have traditionally contained all sorts of works in defined categories, works included in curated sales are centered on a theme rather than an art classification or time period. According to Stephen Brooks, deputy chief executive at Christie's, the curated auctions *"bring together different types of art in a more cohesive manner"* and help gather buyers who might be interested across categories (Financial Times, January 26, 2016). The concept of the "curated auction" was originated by Phillips in November 2010, when it gave the private dealer and advisor Philippe Segalot free reign to put together an auction in an effort to show that it was doing something different from that of the two powerhouses, Christie's and Sotheby's (Neuendorf H., May 11, 2016).

More recently, however, it is Christie's deputy chairman of post-war and contemporary art, Loic Gouzer, who started putting in place eyebrow-raising curated sales in order to differentiate the offer from that of Christie's direct competitor, Sotheby's. In May 2014, Gouzer organized Christie's first curated auction titled "If I Live I'll See You Tuesday", featuring a selection of works by artists such as Jeff Koons and Alex Israel. Moreover, in order to attract a younger audience, the event was promoted with a video of professional skateboarder Chris Martin performing tricks throughout Christie's offices, sales room, and storage facility. The auction was a success, generating $134.6 million and setting 16 auction records. On 11 May 2015, Gouzer organized another curated auction, "Looking Forward to the Past", which included 35 masterpieces of post-war, modern and contemporary art and raised $705.9 million (including fees), the third best sales total in auction history. According to Christie's, the works were selected around the theme of *"artistic innovation inspired by the past"* and generated a series of exceptional results. Pablo Picasso's Les femmes d'Alger (1955) set a new all-time global record for an artwork sold at auction, selling for $179.4 million. The sale also set a new global record for a sculpture with Alberto Giacometti's L'home au doigt (Pointing Man) (1947) fetching $141.3 million.

For its part, Sotheby's developed "The Contemporary Curated" model in 2013. This attempt to appeal to the mid-market and to diversify the art auction market is focused on mid-tier lots. Also in this case, the objective is to introduce new audiences to buying. As stated by Joanna Steingold, head of Contemporary Curated at Sotheby's London *"We are inviting leading* *tastemakers to guest-curate because we are always looking for new and innovative ways to target young and new audiences"* (Disegno Daily, 11 March, 2016). Sotheby's does not seem to have obvious criteria for selecting which public figures to invite to guest-curate sales. Some of the people invited comes from the creative industries, like the Swedish art dealer Helena Skarstedt or Artsy founder Carter Cleveland, but other guest-curators included basketball player Amar'e Stoudemire, model Peter Brant and restauranteur Danny Meyer. However, the role of the guest curator seems somewhat superficial considering the limited input each guest-curator actually has, selecting pieces from a small selection of items already selected or consigned to sale. For these reason, according to Lawrence (March 2016) *"it is difficult to see the role of the guest curator beyond a marketing tool"*. *"On the other hand"* continue Lawrence *"Contemporary Curated does provoke debate concerning the future of art auctions, and its proactive approach to innovate in a world that is often seen to be steeped in tradition and exclusivity"*.

4.3.3. Primary Market

"Some of the biggest sales at auction houses right now have nothing to do with hammers, paddles or the frenzied bidding floor. Auction houses, seeing an opportunity to expand their businesses, are increasingly pushing private art sales" (Russell J. H., March 11, 2006). This was the situation described by a Wall Street Journal article at the beginning of 2006. Over the years, the relevance of private sales has increased so much that in 2012 Benjamin Genocchio (October 2, 2012) writes: *"Auction houses have always dabbled in the private sales market, but what we are seeing now is nothing short of a revolution in how art is bought and sold. Auction houses are competing with dealers for consignments on every level, from the big-ticket paintings that make headlines to less valuable objects offered for sale through online galleries and curated selling shows"*.

To better understand the magnitude of this shift, it is possible to look at the financial figures reported by the two firms in private sales in the last years (Art+Auction, March 2013; Christie's Press Release, 2014):

-2006: Christie's $256; Sotheby's $328 million.

-2011: Christie's $809 (+50% from 2010); Sotheby's $815 million (+65% from 2010).

-2013: Christie's $1.19 billion (+18% from 2012); Sotheby's $1.2 billion (+30% from 2012).

The move into private sales is part of an effort to combat the rise of galleries, such as Gagosian and White Cube, which often compete in secondary-market work with auction houses. George Sutton, an analyst at Craig-Hallum, said that *"The market has gotten more competitive (…)* (and) *the auction houses have done a good job of gaining share using the private market".* In fact, private sales have different advantages for the auction houses. First, they allow more transactions. Providing their clients (both buyers and sellers) with more distribution channels is a way to please those collectors who prefer to trade privately because they get around the annoying fee structure of the auctions or those who simply like the personalized attention and the discretion that private treaty sales can command. Moreover, for many sellers who chose private sale over auction, the driving factor could be also the fear that if the property does not sell at auction, it will lose value. Secondly, private sales build personal relationships among auctioneers and collectors and help the houses keep track of prized items. Another benefit concerns the fact that private sales can be done without limit, while the number of auctions a house can do each year are subject to constraints.

Again, according to Genocchio (2012), *"As (…) growth advances, of course, the houses will face increasing competition. Galleries will continue to dominate the primary market sales of contemporary art, where they play an important role in nurturing careers. And the two big players are finding themselves vying with their own former employees* (…)*. The ultimate winners are the clients, who now have many more options to be in the game*".

-**Christie's** 2011 CEO Steven Murphy stated that *"Christie's has always been in the art advisory business, advising clients to sell or buy, and then having the transaction be the auction. Being a good auctioneer means being a great adviser to clients"*. In recent years, he continues, "*clients have evolved and migrated into activities for their own collecting and transacting, including auctions, art fairs, private sales, and, increasingly, online transactions. I believe what we need to be about is aligning ourselves with our clients' art buying activity*".

The company acquired the famous and international contemporary art gallery Haunch of Venison in February 2007 from dealers Harry Blain and Graham Southern. From that moment, Christie's ran the wholly owned subsidiary as a stand-alone contemporary art gallery with branches in London and in New York. Not many information are available since discretion is a key attribute of private sales but the overall figures released publicly by Christie's are extremely positive. In 2008, Christie's brokered $487 million in private sales[8] (Artnet, February 13, 2009), and in 2012 they already accounted for approximately 10 percent of the turnover from all sales departments, totaling $661.5 million (a 53 percent increase over the same period in 2011) (Art+Auction, October 2012). In 2014, private sales grew again, this time of a 26 percent, reaching $1.5 billion (Christie's Press Release, 2015).

Private sales have acquired a more public face with the auction houses' introduction of curated selling shows, like "A Tribute to Forrest Bess," a single-owner sale held in 2012, at Christie's private-sale gallery near Rockefeller Center. This was followed in the same year by a show of New York painting from the 1970s co-curated by Robert Pincus-Witten and Amy Cappellazzo. In 2014, new exhibition spaces were opened in New York, Hong Kong and Shanghai.

-**Sotheby's** had purchased in June 2006 the Maastricht-based art gallery Noortman Master Paintings, which also runs an office in London and is specialized in Dutch and Flemish Old Masters as well as French Impressionist paintings. For the gallery, Sotheby's paid $56 million in stock and assumed

[8] This figure includes revenue from the international contemporary art gallery, Haunch of Venison.

$26 million in debt (Art+Auction, March 2013). However, the house demarcated these revenues from those of private sales, reporting them as part of the firm's newly formed "dealer" segment and it is unclear how much of the $21.8 million Sotheby's reported as "dealer sales" revenue in 2011 was delivered by Noortman. Anyway, the growth of the auction house in the private sales segment over the last decade is evident in the numbers reported on its annual reports. In fact, if in 2008 the company brokered $373.7 million in private sales from which it captured $33.8 in commission for itself (Sotheby's, 2008 Annual Report, pp. 21-22), in the first quarter of 2012 private sales were grossing $186.7 million (an increase of 78.6 percent over the same three months of the previous year) (Art+Auction, October 2012). In 2013, with an increase of the 30 percent from 2012, Sotheby's private sales reached $1.2 billion, the highest total in company history.

In the same way that happened at Christie's with the introduction of curated selling shows, private sales have acquired a more public face at Sotheby's with the launch, in September 2011, of S2, a designed gallery space in the company's York Avenue headquarters, space entirely devoted to independently curated selling shows.

Another interesting case related to the auction houses development of the primary market is Damien Hirst's auction at Sotheby's London in 2008. At the summit of his glory Hirst decided to take his market into his own hands and by cutting out of the equation his dealers (Jay Jopling and Larry Gagosian), he mounted a bold attack to the conventions of the art business. *"With his excellent nose for business, he short-circuited his usual network of galleries, entering into direct contact with collectors via a personal auction sale of 223 works taken straight from his workshop. This historical event was organized in collusion with Sotheby's on 15 and 16 September 2008, just hours after the fateful collapse of Lehman Brothers that precipitated a global financial meltdown. Despite the alarming economic backdrop, the sale was a huge success, generating $147 million with 45 results above the million dollar line"* (Report Artprice, 2015, p.32). According to Horowitz (2011), this case was the culmination of a painstakingly orchestrated marketing campaign by Hirst and Sotheby's, which spent nearly $4 million just to promote the sale.

4.3.4. Information

"Information is power" writes The Economist (30 January, 2016). Nowadays, the big auction houses do not have a near-monopoly on information about the art market anymore. The power of information stands exactly in the possibility to have an edge over customers as well as potential rivals. But now buyers, sellers and dealers are much better informed, moreover many collectors regard their contemporary art as an alternative asset class, which has prompted the launch of new businesses offering market data, tax advice and analysis of the investment potential of art. Also in this field, Sotheby's and Christie's have been trying to develop a specific strategy.

-Sotheby's *"in a highly unorthodox move bound to shake up the auction world"* (Pogrebin R., January 11, 2016), paid $85 million in January 2016 in order to acquire Art Agency Partners (AAP), a boutique art advisory business run partly by a former Christie's specialist, Amy Cappellazzo. The firm, even if set up less than two years before, has already developed strong relationships with top collectors around the world, executed complicated financial transactions, worked in art consultation and investment, estate planning and museum development. AAP was probably attractive to Sotheby's especially for its capacity to bring client lists of wealthy individuals who may not be confident in dealing with auction houses, or experienced collectors in need of someone who knows their taste. AAP will lead a new fine-art division within the auction house, focused mainly on 20th- and 21st-century art. By acquiring the group, Sotheby's probably hopes to increase profits, build private sales and expand its client base at a time when the company's stock price has been steadily declining (The New York Times, January 11, 2016). Sotheby's president and chief executive Tad Smith said that the acquisition *"is going to bring significant new profit and revenue streams (…) and it also brings significant new talent and leadership into the organization".* Adam Chinn, a partner of AAP and a co-founder of the investment bank Centerview Partners, strongly believes to the challenge of increasing profits and volume at Sotheby's. He said "*hopefully, we can help* *create a business model that will make it more stable. It's a whole business in transition".*

4.3.5. Art related businesses: Brand Licensing activities, Estates and Education

-Sotheby's. As reported by Sotheby's 2015 Annual Report: "*Prior to 2004, Sotheby's engaged in the marketing and brokerage of luxury residential real estate sales through Sotheby's International Realty ("SIR"). In 2004, Sotheby's sold SIR to a subsidiary of Realogy Corporation ("Realogy"), formerly Cendant Corporation. In conjunction with the sale, Sotheby's entered into an agreement with Realogy to license the SIR trademark and certain related trademarks for an initial 50-year term with a 50-year renewal option (the "Realogy License Agreement"). The Realogy License Agreement is applicable worldwide. The Realogy License Agreement provides for an ongoing license fee during its term based on the volume of commerce transacted under the licensed trademarks. In 2015, 2014, and 2013, Sotheby's earned $8.1 million, $7.2 million, and $6 million, respectively, in license fee revenue related to the Realogy License Agreement. The Sotheby's name is also licensed for use in connection with the art auction business in Australia, and art education services in the United States (the "U.S.") and the United Kingdom (the "U.K."). Management will consider additional opportunities to license the Sotheby's brand in businesses where appropriate"* (p.7).

-Christie's continues to invest in its art-related businesses that complement its auction business to achieve growth beyond the auction model. In October 2009, the company launched Insurance Services offering private clients in the UK with bespoke, seamless insurance that encompasses not only art but all personal insurance needs. Moreover, Christie's Great Estates continues to be a leading global service provider to the luxury residential property market (Christie's Press Release, 2009) and Christie's Education is another diversified business that offers programs in London, New York and Hong Kong.

4.3.6. Online Expansion

In the art market field, opinions on the impact of online bidding in the future of auction houses are different and varied (Flash Art, November-December 2014). Some professional are convinced of the relevance of working online as a fundamental strategy oriented to the long term. Ralph Taylor, Director at Bonhams UK Board, reported that the impact of the online will only increase as developments are made: *"It offers greater privacy, the ability to engage remotely and means that the overheads to the auction houses are slashed. Clearly the showcase auctions will always be exhibited, but as collectors become more democratic demographically the consumption of work should become slightly more prosaic and straightforward".* Sara Friedlander (Christie's) defines the auction house's e-commerce platform as a *"game changer"*, while Alex Branczik (Sotheby's) see the online market as a great way to reach new audiences. Other considerations are made by Gioia Sardagna Ferrari, specialist in Modern and Contemporary Art at Artcurial (an important French Auction House), who thinks that online bidding is an intelligent way to introduce people to the art market thanks to accessible prices, but it has a different target market and for this reason it has not to be considered a competitor, but a complementary player. Also Martin Klosterfelde (Phillips) do not see online auction houses as a competitor to traditional auction houses, since they provide a very different kind of services and experience for their clients. Especially interesting is the opinion of Aino-Leena Grapin, former CEO at Paddle8, an important online auction house. According to her, online auction houses were founded on two premises: the recognition that the centuries-old auction industry was ripe for improved efficiency; and the identification of the emergence of the 21st-century collector, *"someone who is cost-sensitive, channel-agnostic, nomadic, digitally savvy, craves immediacy and collects across multiple categories (…) not being served by the brick-and-mortar auction houses".* And again, *"we've found that many of our collectors are the same who had been buying from traditional auction houses but were eager to bid, buy and sell with the same* *ease that it takes to buy a Valentino dress at Net-a-Porter, book a first-class flight at Kayak, or call a car on Uber".*

Even if opinions in the field are different, the diffused attention on the online bidding confirms its relevance and explains why both Sotheby's and Christie's gradually followed this direction. The first experimentations of the auction houses with the online world started at the beginning of 2000, with a list of failure experiences. However, is just around 2006 that the strategy followed for the online expansion started to take a clearer direction. In those years, Sotheby's and Christie's started developing effective online platform and business intelligence systems to support their digital sales strategies. If Sotheby's followed a digital strategy of outsourcing in its technology and platform provisions, the digital strategy followed by Christie's has been more oriented towards in-house development. With the establishment of a well-respected online infrastructure, auction houses can hope to seriously compete in this market place in the future.

- Sotheby's began experimenting with online bidding at the beginning of 2000. In January the company launched an interned based sales platform with Amazon, project that was abandoned later in October of the same year. For its Internet-related sales of $31 million in the first half of 2000, the auction house reported losses of $28 million (Horowitz N., 2011, p. 343). Sotheby's tried again in 2002 with a partnership with eBay, whereby it replaced eBay Premiere (a division of eBay reserved for higher-end items) (Kazumori & McMillan). This outsourcing technology and platform provision partnership had the aim to reach a greater number of online participants, an untapped market, and to be competitive in the market for lesser-priced goods. However, also this partnership terminated after hardly a year. When Sotheby's announced the end of these online projects, clarified since the beginning that it was not abandoning the internet altogether. '*The power of the online medium remains extraordinary,*' said president and chief executive officer Bill Ruprecht. Online bidding technology allows clients '*to follow Sotheby's traditional auctions via the internet and place bids online, in real time. We anticipate increased interest as clients become more familiar with its availability and ease of use*' (PR Newswire February 4, 2003). We have to consider, in fact, that the initiatives operated on Internet from 2000 to 2003, during the tail end of the dot-com boom, took place in an economy threatened by recession and in a period when the art market overall was depressed. It is historically proven that luxury goods do not sold well during recessions, and also Sotheby's traditional auction business had a bad performance at this time.

After May 2003, Sotheby's relaunched a proprietary online sales system that was merely a channel through which buyers could submit their maximum bid online (like a written bid) and an auction house member would execute the bid on the buyer's behalf up to the maximum price specified in the pre-auction online form (like a telephone bid). More recently, in 2014, Sotheby's announces a new collaboration with eBay that saw the launch of a new live online auction site in March 2015. The site, hosted by eBay, allows collectors to bid on auctions in New York from anywhere in the world, accessing in live streaming audio and video of the sales, and viewing the items for sale. The online bidding on Sothebys.com and eBay.com/sothebys has been delivered through a partnership with Invaluable.com, which integrated its online bidding technology. The partnership has seen the number of collectors bidding online increase nearly 55% leading to a 35% increase in the value of successful bids. *"As a result of the collaboration, Sotheby's has advanced its digital strategy with a new online salesroom and exciting bidding platform features, including private messaging, along with enhanced video streaming, which has been optimized to support hundreds of thousands of concurrent video attendees without loss of timing or delay. This ensures that all auction participants are able to follow along in real-time, regardless of their location"*. Online purchase span the range of Sotheby's sales categories and locations and, as stated by Sotheby's Chief Digital Officer David Goodman (2015), *"the technology integrates seamlessly into our web bidding platforms, helping us to grow the e-commerce portion of our business and attract new clients who enjoy the convenience and accessibility that real-time online bidding provides. Over the course of 113 sales, we have seen rapidly-increasing engagement translating into significant growth and new auction records"*.

-Christie's entered the online auction space six years after Sotheby's, launching its internal platform Christie's LIVE in 2006. This service allowed buyers to hear and watch live auctions and bid in real time from their personal computers (Agence France Presse, 2006). The platform generated $157 million of sales in its first year of operation and by 2008 just over a fifth of Christie's lots were sold online, even if they were priced quite low in average (about $6,000). With the arrive of Steven Murphy as a CEO in 2010, the company invested $50 million in the online platform, radically modernizing the London-based auction house. As reported by Art+Auction (March 2013), as the field of e-commerce was growing with online platforms like Paddle8, Artsy, VIP Art, and Artspace, Christie's tried to fashion its own online presence and, in December 2011, for the high-profile sale of the Elizabeth Taylor, the house staged a $9.5 million online-only auction to complement the action in the salesroom. Moreover, during the curse of 2012, the house held six stand-alone online auctions that cumulatively tallied $4.4 million. In 2014, these online-only sales reached $35.1 million, driven by the 78 e-Commerce sales held across 21 different categories. As reported by a Christie's Press Release (2015), buyers on the online platform came from 69 countries with 32% new to Christie's and 42% of new buyers under the age of 45. Always in 2014, the highest price for a work of art in the live auction room via Christie's LIVE™ was Tyeb Mehta's (Untitled) Falling Bull (sold for $2.8 million in Mumbai), while the total sales for online buying via LIVE™ and e-Commerce were $178 million (Christie's Press Release, 2015).

In 2014, there was also the launch of James Map, a sort of private internal social network that allowed specialists, client service staff, support staff and executives to see what is known about a client and his tastes. It worked as a CRM platform, which records past auction records, relatives' purchases and sales, statistical inferences. As explained by Murphy, the aim was *"to create an internal app that spiders into our database of information and brings up on our internal [screen] environment lots of connectivity. This is faster and better than the email chains [that it replaced]"*. John Dizard wrote on its Financial Times' article 'Auction houses embracing digital technology to sell to the new global rich' (September 2014): *"While the most visible aspect of* *the houses' digital revolution may be their online auctions, the most essential is in the systematizing and networking of their customer, market and lot information".* The same article quotes Christie's Ken Citron, head of IT: *"We are a global company now, with global clients. Our having technology allows them to have a consistent experience across the world*." Dizard's article closes with a warning from Murphy about the dangers of disintermediation in digital markets. Perhaps Murphy is thinking of how publishers have been disintermediated from their market by Amazon, a fate he is determined to avoid at Christie's.

In 2015 Christie's has acquired Collectrium, the leading global digital art collection management solution. Founded in 2009, the subscription-based service offers collectors a highly secure, cloud-based solution for accessing and managing their art collections from anywhere and on any digital device. Over 25,000 art collectors currently use Collectrium to discover, track, and manage art (Ryan E., Interview).

4.3.7. Global Expansion

In the last decade, as wealth was becoming more dispersed globally and hand in hand with the process of globalization, Sotheby's and Christie's started looking to new parts of the world as a way to increase revenues from highly competitive auction sales. The most visible measure undertaken by the two auction giants was to intensify investment in fast-emerging markets, like the Asian marketplace. Consequently, the art market started acting in a global system.

-Sotheby's. The firm have representatives across the globe in such places as Russia and China. In Russia, it was the first international auction house to open an office there in 2007, and in 2009, the auction house opened a saleroom in Doha. Another large wave of expansion from Asia to the Persian Gulf States and Latin America was largely accomplished by 2005.

Sotheby's arrived in Asia quite early. The firm began holding sales in Hong Kong already in 1973 and established frontier offices in Shanghai in the 90ies.

The Asian market is a good source of revenues for the company, which in 2011 generated $960 million with the Hong Kong sales (Tully J., March 12, 2013). However, with the subsequent maturing of the market and a tightening of tax restrictions, the initial wild pace of growth slowed, and in 2012 Hong Kong totals fell to $595 million. Even if Hong Kong remains the auction capital of Asia, also the Beijing market started bubbling. In 2012 Sotheby's sealed a 10-year joint venture with the state-owned Beijing Gehua Art Company to hold auctions within China. However, the rise mainland-based competitors like China Guardian and Beijing Poly International Auction still has the potential to erode profits.

More specifically, the company has salesrooms, representative and/or consultants in:

Asia & The Pacific: Bangkok, Beijing, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Mumbai, Seoul, Shanghai, Singapore, Sydney, Taipei, Tokyo;

Europe: Amsterdam, Athens, Berlin, Bordeaux, Brussels and Luxembourg, Cologne, Copenhagen, Florence, Frankfurt and Stuttgart, Geneva, Hamburg, Istanbul, Lille, Lisbon, Lugano, Lyon, Madrid, Marseille, Monte Carlo, Milan, Montpellier, Moscow, Munich, Nantes, Oslo, Paris, Prague, Rome, Stockholm, Strasbourg, Toulouse, Turin, Vienna, Zurich;

Latin America: Buenos Aires, Caracas, Mexico City, Monterrey, Rio de Janeiro, São Paulo;

Middle East & North Africa: Cairo, Doha, Dubai, Tel Aviv;

North America: Boston, Chicago, Dallas/Fort Worth, Houston, Los Angeles, Minneapolis, New York, Palm Beach, Philadelphia, Saint Louis, San Francisco, Toronto, Washington DC/Baltimore;

United Kingdom & Ireland: Channel Islands, Cornwall, Devon, Edinburgh, Ireland, London, Norfolk, North of England.

-**Christie's** has a global presence with 54 offices in 32 countries and 12 salerooms around the world including in London, New York, Paris, Geneva, Milan, Amsterdam, Dubai, Zürich, Hong Kong, Shanghai, and Mumbai. More recently, Christie’s has expanded with initiatives in growing markets such as Russia, China, India and the United Arab Emirates, with successful sales and exhibitions in Shanghai, New Delhi, Mumbai and Dubai (Christie’s Press Release, 2015).

Christie’s arrived in Hong Kong few years after Sotheby’s, in 1986, while also establishing offices in Shanghai, staffing up those outposts with native-speaking specialists to reach newly minted elites. The Hong Kong sales in 2011 peaked $854 million for the company, subsequently falling to $705.4 million following the maturity of the market and the tax restrictions that impacted also on Sotheby’s (Tully J., March 12, 2013). In 2013, Christie’s brokered a licensing deal with the Chinese Forever International Auction Company to hold sales on the mainland under the Christie’s banner. In this way the company became the first international fine art auction company to be granted a license to operate independently in mainland China. According by a press release released by Christie’s in April 2013 “*As the global leader in the art market, this development represents an important milestone in Christie’s 247 year history. Christie’s has cultivated long term relationships with the art community in China since becoming the first international auction house to open a representative office in Shanghai in 1994, during which time China has become one of the largest and fastest-growing art markets in the world. The number of clients from mainland China bidding at Christie’s global auctions has doubled since 2008. This growing client base participates increasingly in Christie’s auction centers in London, New York, Hong Kong and Paris*”.

4.3.8. Financial services

The market dynamic of the last decade has meant that auction houses are now competing on many different spheres of sophistication not quite seen in the art market before. Currently both Sotheby’s and Christie’s have finance departments, which deal with the securitization of art and offer guarantees against pieces of work. According to Kumar (November 2014), a response from auction houses in the future could be to offer more and more tailored and sophisticated services to their clients. As quoted by Shaw (2014) Edward Dolman, who was chairman at Christie's, would have said, without hiding a certain skepticism, that "*the business at the top end is now largely driven by financial deals; it's almost like being a trading room"*, referring to the guarantees and loan agreements offered by most auction houses.

However, for business outsiders, this reality is not easily observable. Everybody knows it exists, but it stays inside the houses' walls. In fact, "*there are little information about it, because it is inconsistent with the external image of the auction houses. The romantic idea of the collector and the auction house will disappear if the financial side and "money" one is advertised too much"* (Carabba Tettamanti G., Interview).

-Sotheby's had diversified its service offerings into areas that complemented its main business. In fact, as reported on its Annual Report (2015): "*Sotheby's is a global art business whose operations are organized under two segments: Agency and Finance. The Agency segment earns commissions by matching buyers and sellers of authenticated fine art, decorative art, jewelry, wine and collectibles (…). The Finance segment earns interest income through art-related financing activities by making loans that are secured by works of art*" (p. 6). And again "*Sotheby's Finance segment is uniquely positioned as a niche lender with the ability to tailor attractive financing packages for clients who wish to obtain immediate access to liquidity from their art assets. Through its Finance segment, Sotheby's deploys its unique combination of art expertise, skills in international law and finance, and access to capital*" (p. 7).

The company provides a wide range of tailored financing solutions to their clients, among which are loans and revolving lines of credit. The loans proposed by Sotheby's are secured by art and are mostly in the form of term loans or short-term advances against a client's consignments with the auction house. Through a loan, buyers can purchase art and pay for it over time or even use the loan for other, unrelated purposes. The loan amount is determined as a percentage (usually about 40-60 percent) of the total low auction estimate of the collateral (as advised by the relevant Sotheby's specialists), and most of the loans are structured for two years and tend to be renewed at maturity (www.sothebys.com). In July 2008, the interest rate was prime plus 2 percent to prime plus 3 percent, which, according to Taylor (2008), today would be from 7 percent to 8 percent.

According to Mary Hoeveler, a New York-based private art adviser, *"Sotheby's has been the leader in coming up with the creative financial deals and seems to work that angle more than Christie's does"*. She is referring in part to the introduction of third-party guarantees that have largely replaced the direct financial guarantee of the auction house. In fact, direct guarantee were deemed too risky following the global financial collapse of 2008, when both houses lost tens of millions of dollars for placing those bad bets. The impact of third-party is considerable. At the record-breaking $412.3 million postwar and contemporary sale at Christie's of November 2012, for instance, the 33 percent, carried third-party or direct guarantees (Art+Auction, 2013).

Another financial innovation was the Sotheby's MasterCard, launched in 2007. Through this program, cardholders for both Sotheby's World Elite MasterCard and Sotheby's World MasterCard are entitled to *"private access and VIP privileges exclusively offered by Sotheby"* (www.sothebysmastercardrewards.com). In particular, thanks to exclusive partnerships with prestigious museums, cardholders can visit for free the major American museums (like the Whitney Museum of American Art in New York and the San Francisco Museum of Modern Art), and have the opportunity to host events or to arrange private tours. Moreover, cardholders can earn one point for every dollar spent, which can be redeemed for a wide array of benefits, like making philanthropic commitments by converting their points into cash donations to partner museums. Other benefits of the cards include the possibility to have Sotheby's specialists assistance in private events, to attend Sotheby's private parties and special events, and to have access to a vast range of luxury opportunities.

As reported in Sotheby's annual report (2013: 11), *"Sotheby's strategic initiatives are […] leveraging and growing the Finance segment client loan portfolio"*. An increase in the level of financial services at Sotheby's has been a common theme amongst activist investors to boost profit. In June 2015, the auction house has doubled the amount it can borrow to make art loans in a bid to win clients and top consignments. The company secured a credit line of more than $1 billion to make such loans while previously it could borrow as much as $550 million under that line. According to Sotheby's chief executive officer Tad Smith (2015), Sotheby's financial services is an area where is possible to expand and grow profitably through improved focus and attention. The finance segment demonstrated to be a fast-growing business, with its revenues reaching $15.9 million in 2015, with an increase of 79 percent compared to the previous year. In particular, the profit surged 41 percent to $4.3 million (Kazakina K., June 23, 2015).

-Christie's

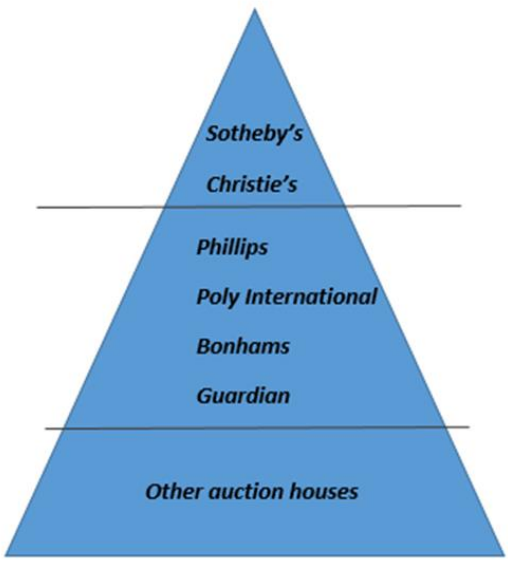
As reported on Christie's website, *"To address the particular needs of Sellers and in order to ensure that Christie's is able to offer the best selection of works for sale, Christie's sometimes enters into special financial arrangements with Sellers, subject to local law requirements. They are offered in response to a demand from our Sellers, including trustees, private clients, foundations and charitable institutions, for certainty around the realisation of their art works' value. While these arrangements are put in place for the benefit of the Seller, in the interests of transparency, we want to make sure that all our buyers are aware of their existence and understand how they work".* These arrangements include guarantees, third party guarantees, advances on the sales' proceeds. In particular, Burns and Pobric (2014), reported that Christie's backed $429.8 million worth of art in its record-making contemporary art sales in November 2014. According to them, almost half of the works on offer at Christie's evening sales in November were guaranteed: precisely 46% (37 of 80 lots), on 12 November auction.

Moreover, in 2009 Christie's was planning to start an art-investment fund and a separate financial division, instead of offering loans and other services as part of the larger auction company. Probably the company wanted to compete more directly with Sotheby's Financial Services, a subsidiary of Christie's main auction-house rival. However, this project was abandoned, probably as a consequence of the 2007 crisis and the global economic slump that was hurting the once-booming art market.

5. ANALYSIS

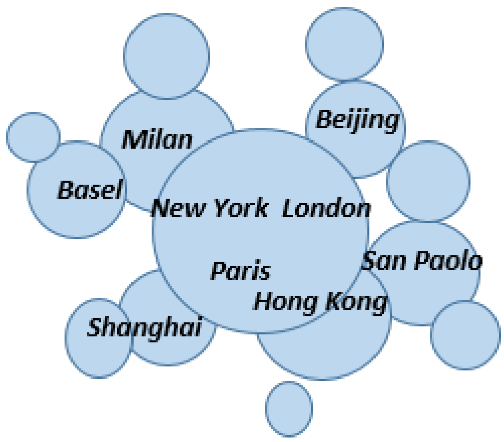
In this chapter, data and theory are connected and deductions are made in order to generalize some specific issues and events concerning the main topic. The description and analysis of the art market is essential in order to understand the context in which strategies are elaborated. Moreover, to analyze the collected data, a visual timeline of critical episodes is developed in the trajectory of the environment's dynamics and the companies' strategies. Finally, the focus on strategy analysis has a natural outcome in the business model definition and analysis, with some duopolistic implications.

5.1. The Environment: Art Market Analysis



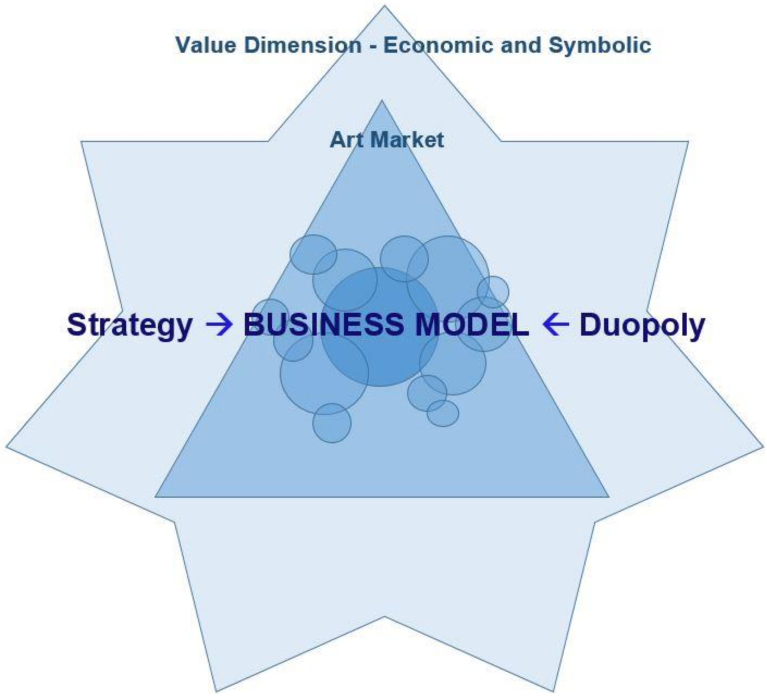
The art market, as described above, delineates a situation of intense competition in the market and a cohesive, elite and exclusionary reality. These characterizations are coherent with Martha Rosler's art market structure conceptualization (1997). She affirms, in fact, that there are "multiple art worlds" and proposes two models.

The first, which describes the people composing it, involves a pyramid with a wide base, representing less relevant institutions and actors, leading up to a small pinnacle that concentrate the most influential players. This model explains quite well the intense competition in the market, its elite members, and the concentration of the value at the top of the market. Sotheby's and Christie's can be placed among the elite members at the top of the pinnacle, since they are among those players responsible for the majority of the turnover. According to the financial turnover data, it is possible to position other major auction houses, such as Phillips, Poly International, Bonhams and Guardian, in the middle of the pyramid while a large amount of minor player of the auction market can be placed at the base. The presence of the Chinese auction houses Poly International and Guardian is definitely a consequence of the evolution of the market dynamics of the last decade. In fact, the slowdown in the global economy, and especially in emerging markets such as China that have buoyed the art market of late, is an important factor. The economic crisis of 2007 has shifted the global economic forces from the west to the east contributing to the development of the Asian market and of the others emerging economies. As reported above, China is now the second major country in global contemporary auction and continues to be the fastest growing contemporary art market in the world. If in 2000 China had less than 1 percent global art market share, in 2014 it reached the 27 percent (only United States had higher share). In the period between 2000 and 2014, China had contributed to the sales' growth with 150 percent (Pereira L., 2016).



The second model conceives the art world as a set of interlocking rings, some close to the center, other further away. Recalling Wallerstein's "world theory", according to which the geopolitical map of the world is divided into metropolitan, semi-peripheral and peripheral regions; this model, applied to the art market, explains the agglomeration economies. According to the recent dynamics of the global art market it is possible to position cities like New York, London or Paris as the metropolitan area representing a dense concentration of rings, while the zones outside of these centers are the peripheral areas. Again, according to the data provided above which states that Beijing, Honk Hong and Shanghai, did respectively $228,127,283, $146,669,088 and $52,228,133 in contemporary art auction revenues between July 2014 and June 2015, it definitely possible position these cities among the art market major capitals. Thanks to globalization, also other geographical areas, such as India and Brazil, have assumed relevance in the last decade in the concentration of the Art Market. Rosler's model of interlocking rings is considered by Horowitz (2011) as more consistent to reality with respect to the pyramid model and its zero-sum concept of competition. Moreover, according to sociological analysis, this model denotes a system constituted in the main by face-to-face (the "art scene" or the "art circuit") rather than impersonal relations. Despite the differences, both models describe correctly the art market as a cohesive and exclusionary reality, *"in which a very small number of actors control a disproportionate level of power in earnings, reputation, and taste-setting parity"* (Horowitz, 2011).

The representations offered by Rosler evidences the intense competition that characterized the market and explain quite well the presence of elite members (like the two auction houses) which are responsible for the majority of the turnover and are interdependent in their strategic interaction. Concluding, it is important to underline how in the art market the notion of value goes beyond the definition given by neoclassical economics. According to Danto (1964) "*To see something as art requires something the eye cannot decry – an atmosphere of artistic theory, a knowledge of the history of art: an artworld"* (p. 571-584). If art, as stressed by Pierre Bourdieu, is a system of belief, trust is of the highest order in the art economy. In the Art Market, reliable information are a premium and, more fundamentally, art has little intrinsic worth beyond its physical materials. For these reasons, the market for art takes place where this belief is effective. Prices act as measure of value just in a system where trust is intact and the value is not just monetary but critical, social and aesthetic. In a system without trust, prices are meaningless. *"Lacking trust and belief, a Hirst shark is not worth $12 million,* *let alone $1.2 million or $120,000 (…). Or, as dealer Leo Castelli famously said of selling an $800,000 Cézanne landscape (…), so much of art's value lies in the myths that encircle it – and without belief in such myths, and a structure to support and perpetuate them, the extreme prices of art risk becoming obsolete"* (Horowitz, 2011, p. 208). According to Velthuis (2005) markets are *"cultural constellations"*, where there are some *"socioeconomic maximizers*", accounting for the sake of long-term symbolic meanings (like reputation and status). Here, reconnecting to the business model concept developed by Hedman and Kalling (2003): "*These processes* (the processes of evolution of the business model) *include the bridging of cognitive, cultural, political obstacles, and are issues that managers deal with on a regular basis, for all components of the model, and claims that we need all three inorder to understand the factors of success and failure*" (Hedman & Kalling, 2003, p. 54).



Summarizing, this framework could be represented schematically in the figure above. In fact, the evolution of Sotheby's and Christie's the business model happens in relation with different factors and in a specific context. The art market takes places in a system of beliefs where value is not just economic but also symbolic. The concept of "*symbolic capital*" (Bourdieu, 1994) deeply influences every dynamic of the market, and it is in its extremely competitive and elitist environment, that the business model evolution takes place. Firstly, this transformation is influenced by the strategy followed by the companies, which defines policies, assets, and governance structures in relation with the competitive environment. Moreover, in the particular case of Sotheby's and Christie's, which have dominant control over a market, the business model are interrelated and evolve according to strategic decisions taken in a duopolistic context.

In conclusion, we can affirm that the current auction market is particularly a dynamic one. A number of larger global economic themes such as globalization, the changing pattern of global wealth, the rising of the online, have affected it deeply in the last decade. Business practices have to adapt to this dynamic environment along the way as the different processes take hold. In this context and according to theory (Rindova & Kotha, 2001), companies have to experiment and learn to change and transform their business models to adapt to the needs of complex new competitive environments. These are the ebbs and flows of any business cycle. Again, as stated in the theory chapter, the competitiveness of a firm is related to how its business model interacts with the environment and with those of other industry participants (Casadesus-Masanell & Ricart, 2010). For these reason, the analysis of the environment developed above is of fundamental importance in the understanding of the business model evolution that characterized Sotheby's and Christie's in the last decade.

Moreover, to have a clear understanding of the economic environment and its competitive landscape is necessary not just to delineate the evolution steps of a business, but also to provide instruments of prevision and understanding of the future possibilities that characterize the same business. According to this, Horowitz (2011) provides an additional motivation to write about key strategic issues for auction houses in the current global economic situation. "*The more we appreciate the nuanced relationship between the art market and the broader economy, the more prepared we will be to soberly analyze its ever-evolving core and identify progressive solutions sturdy enough to support the trade in the face of the myriad challenges that it currently faces – and genuine enough to ensure that the art, itself, isn't lost in the pursuit of yet another deal".*

5.2. Market's Dynamics, Companies' Strategies and Business Model Evolution

Since, according to Porter (1991), strategy theory concerns the explanations of firm performance in a competitive environment, the analysis of the market dynamics is in strict correlation with the strategies implemented by the companies.

MARKET DYNAMICS	SOTHEBY's and CHRISTIE's STRATEGIES
From **90ies** - **GLOBALIZATION**: proliferation of art fairs and biennials; **2007** - **CRISIS**: economics forces shift to the East; **NEW MARKETS**: BRIC countries and other emerging economies.	**90ies/2007/still in act** – **GLOBAL EXPANSION**: Intensification of investments in fast-emerging markets; global presence with offices and salerooms around the world.
2000/2011/still in act – **NEW INTERNET ECONOMIC MODEL**: new possibilities for the development of the art economy at large and for democratic participation in the art market; it lowers entry barriers in art consumption; model boosted by 'silver surfers'; more transparency in market information; new competitors (online auction houses).	**2000/2006** – **ONLINE EXPANSION**: development of online platforms and business intelligence systems to support digital sales strategies; new means to reach a global market and young clients; systematizing and networking of customers, market and information.

DUOPOLY: -**2014**: Sotheby’s and Christie's had a combined 42 percent share of the auction market; -they share about 80 percent of the world auction market in high-value art, and an almost absolute monopoly on works selling for over $1 million; -Recent increase in the competition: in **2014** the sales of art worldwide surged to €51 billion, and both auction houses also saw record sales.	**DIVERSIFICATION**: **2007 – MARKET SEGMENTS FOCUS**: Sotheby's high end of the market; Christie's both high-end and middle-market; **SALES THEMES and DEPARTMENTS**: Different strategic priorities: Post-War & Contemporary (Christie’s) vs. Impressionist & Modern (Sotheby’s); competition through major collections; new departments to broaden the auction houses’ customer base (**2015** Sotheby’s Collector Car Auctions; **2002** Christie’s Interiors Department); New creative sales concept to appeal to new audiences and fuel interest (**2013/2014** ‘Curated’ auctions); **ART RELATED BUSINESSES**: to achieve growth beyond the auction model; Brand Licensing Activities, Estates and Education.

2007 - NEW and **DIFFERENT COMPETITORS**: important art dealers and galleries (Larry Gagosian); art funds; art advisory and consulting agencies, etc. -the art world like a social circuit: the market is more complex compared to the neoclassical economic analysis; in the art system, personal relations, social boundaries and behaviors are a vital part of the economic logic; -concentration of value at the top of the market.	**2006/2012** – **PRIMARY MARKET**: Sotheby's and Christie's increasingly pushed private art sales as an opportunity to expand their businesses; acquisition of art galleries (Christie's acquires Haunch of Venison (**2007**); Sotheby's acquires Noortman Master Paintings (**2006**); introduction of curated selling shows (**2012**) in exhibition spaces (Sotheby's S2 **2011**); innovative auction sales like "Beautiful Inside My Head Forever" Auction, Hirst and Sotheby's (**2008**); **2016** - Sotheby's acquisition of Art Agency Partners, a boutique art advisory business; **FINANCIAL SERVICES**: Both Sotheby's and Christie's have finance departments, which deal with the securitization of art and offer guarantees against pieces of work.

Following the market evolution and strategy perspectives described above, it is possible to make some considerations. As stated in the theory chapter, the environment context, which is characterized by hyper-competition, new technologies and globalization, is pushing for a new need of innovation, a transformational approach of the concept of business model, which is becoming one of the main forces driving strategic renewal efforts of businesses around the world.

The transformational approach studied by Demil and Lecocq (2010) through Penrose's work, underlines an ongoing dimension of change as a permanent state and a dynamic growth of organizations, which is definitely visible in the longitudinal development of Sotheby's and Christie's strategies. The two auction houses have developed their business models, paying a close attention to time, cognitive and cultural evolutions and constraints in the contemporary economic system. This transformation of the business model is strictly related to strategy, since it is its reflection (Casadesus-Masanell & Ricart, 2007). Strategy theory, which concerns the explanations of firm performance in a competitive environment, results in a particular set of choices concerning policies, assets, and governance structures which, together with their consequences, constitutes a business model. According to the three main perspective analyzed in the theory chapter (RBV, I/O, Strategy Process Perspective), it is possible to state the following considerations:

-Resource based view (RBV): emphasis on the characteristics of the resources of the company that render competitive advantage. **Sotheby's and Christie's**: the two houses, in fact, coherently with the symbolic value and the highly ritualization of the art market, can consider their reputation, brand, personal networks, specialists' skills as rare and valuable resources, very costly to imitate and which represent great entry barriers to the top level of the market.

-Industrial organization (I/O): states that environmental pressure and the ability to respond to it are the prime determinants of a firm success. External industrial forces affect the work of managers. Substitute products, customers and suppliers as well as potential and present competitors determine strategic choices, and the two 'generic strategies' are differentiation and low-cost. **Sotheby's and Christie's:** the necessity to adapt to global, younger ('silver surfers'), demanding customers but also the presence of new competitors (online auction houses, advisory firms, etc.), have determined different strategic choices in the last decade. In particular, the two companies have looked for differentiation strategies and have tried to reach lower market segments.

-**Strategy process perspective**: focuses on how firms actually created the favorable positions over time. The focal point of the process perspective is the management of cognitive and cultural constraints on strategic development and firm evolution. **Sotheby's and Christie's:** the two companies have demonstrated a change in their strategic orientations, which is created and managed over time according to a long-term vision.

Consequently, as strategy, Sotheby's and Christie's business models evolve in response to both external and internal factors, as a fine-tuning process involving intended and emergent changes both between and within its core components. Their case, coherently with what stated by Casadesus-Masanell and Ricart (2007), demonstrates how, nowadays, business model innovation is becoming one of the main forces driving strategic renewal efforts of businesses around the world. The causes of this renewal in Sotheby's and Christie's case are coherent with the reasons reported in the theory chapter: on the one hand, the competitive environment is becoming increasingly complex, giving rise to hyper-competition (Thomas & D'Aveni, 2004), which is characterized by difficulties in sustaining competitive advantage as new business models substitute for established ways to compete. In addition, the recent revolution in information and communication technologies opens broad opportunities to configure choices in radically different ways (Malone, 2004). Moreover, other forces such as globalization and deregulation fuelled interest in this field (Casadesus-Masanell & Ricart, 2007).

According to Demil and Lecocq (2010), the business model concept can have two different approaches, the static and dynamic ones. In the first case, a business model synthesizes a way of creating value in a business (Amit & Zott, 2001) and helps to describe how an organization functions and generates revenues. The second use of the concept represents a transformational approach, which explain the evolution of the business model, connecting it to the concepts of change and innovation. In this approach, a sustainable business requires progressive refinements to create internal consistency and/or to adapt to its environment. To address the question of Sotheby's and Christie's business models evolution, it is possible to reconcile these two approaches as done by Demil & Lecocq (2010), building on the concepts of the RCOV framework and the Penrosian view of the firm.

Sotheby's and Christie's - RCOV framework (static approach): There are three business model's core components: resources and competences (RC), organizational structure (O) and the value proposition (V).

-RC: valuable human assets (extreme expertise and specialization of the different departments' specialists, intellectual capital, managerial know-how), valuable physical assets (worldwide and prestigious locations), organizational assets (integrated control and communication system, some problems of liquidity), intangible assets (well-known brand, good reputation, not too strong clients' loyalty), market advantage (market share leadership, wide geographical coverage, well-known brand name, superior customer service).

-O: the organizational structure includes the value chain of activities and the value network. The last one is fundamental in the case of Sotheby's and Christie's since the web of relations the companies create with external stakeholders can have a relevant impact in the art market, according to the nature of the art world.

-V: the propositions for value delivery reflects the content of the transactions with customers and the idiosyncratic deployment of resources of the organization. In the auction houses case, the companies have been able to exploit and valorize their resources, creating different market value propositions (like the advisory service, private sales, financial agreements, online platforms) which are a complete and updated answer to customers' needs.

Sotheby's and Christie's - Penrose (transformational approach): Penrose's work underlines an ongoing dimension of change as a permanent state and a dynamic growth of organizations. The growth of the two auction houses results from the interaction among their resources, their organization and their capacity to propose new value propositions in the art market.

According to Penrose (1959), the importance of firm's resources lies in the 'services of resources', the bundle of possible services an organization's resources can produce, which finally depend on its management's capacity to extract value from their use and to create innovative combinations.

We can conclude that, thanks to all the different strategies implemented, auction houses became a "hub" for the art market. In the last decade, Sotheby's and Christie's have begun new initiatives and projects, diversifying their business and exploiting all the possible market's opportunities. Art related businesses, the entrance in the primary market and financial services are a great example of the way through which the two organization tried to achieve growth beyond the basic auction business model and to expand creating innovative business combinations. Sotheby's and Christie's business model has been defined as a *"one stop shop*" (Carabba Tettamanti G., Interview), a place where you can find any kind of services available in the art market and not just limited to auctions. In this way, the two companies found a way to adapt to a fast-paced market and to answer to the increasing competition and new customers' needs.

5.3. Duopoly Implications

Sotheby's and Christie's, are the long-running rivals since the days they were established (Peers A., 2007) and, as leader firms in the Western Art Market, are still often referred to as the 'duopoly' ("The Economist", 2004; "The New York Times", 2015). The two companies share, in fact, 80 percent of the world auction market in high-value art, and an almost absolute monopoly on works selling for over $1 million (Hayden R., 2015), consequently having dominant control over the market. As primary competitors, their performance depends on the presence of the other. This is evident in the use of guarantees as a way to attract customers, in the commissions "war", but also in the cartel scandal of 2000.

What is new to this study is the analysis of how also the strategy evolution of the two firms in the last decade confirms the interdependency of the houses' business models. In fact, according to the definition provided by Casadesus-

Masanell and Ricart (2007) in the theory chapter: *"Business models of two companies are interdependent when some consequences are common to both companies' models. In other words, the business models of two companies are interdependent when they "touch" each other"* (p. 16).

As it is evident in the timeline of critical episodes developed above, the companies' strategies have evolved not just following the trajectory of the environment's dynamics, but also in relation to each other. For example, both of them have evolved in the online field as an answer to the market but also as a necessary strategic move affected by the activation in the field of the other. The same for the global expansion, which is consequence not just of the globalization process, but also of the necessity to be present in every place where the other house is, to remain competitive. Therefore, it is evident a high level of interdependence and tactical interaction in the strategies definition.

In their longitudinal evolution, the two auction houses have followed an adaptive model, as defined by Cyert and De Groot (1970), in which they learned with regard to the other firm and to the environment, and, thereby, modified their behavior according to this. The learning that took place within the firms can be viewed as falling into two categories: the adaptation in the internal processes of the firm and the adaptation to interfirm learning. In fact, firms are able to follow the Bayesian's process in making decisions in an oligopolistic market and are able to learn from their experience (Cyert & De Groot, 1970). This learning implies the observation of the reactions of the firm's rivals to its actions, and the gathering of information from the environment. The information comes from participants in the organization who are interacting with the environment, in the case of auction houses usually are the specialists and managers, and this information is generally about rival firms' plans and market behavior.

Finally, other important topics to consider in this context are the issue of market growth, investments and collusion. In fact, in a market with strategic competition, investment confers a great capability to take advantage of future growth opportunities, leading to the capture of a greater share of the market

(Kulatilaka & Perotti, 1998). The acquisition of Art Agency Partners, in Sotheby's case, answer exactly to the need of capture a specific growing segment of the market. Concerning the optimal timing for projects or investments, the growing competition of the last years has definitely speeded up some projects initiation, like the development of the online platforms. Moreover, Sotheby's and Christie's can be defined a simple duopoly model with multiple investments and instantaneous price competition on a market of finite size, where uncertainty and the speed of market development influence investment strategies and competition. According to Boyer, Lasserre, Mariotti and Moreaux (2004), in a case like this, market growth can affect collusion opportunities. It is reported that collusion is more attractive to firms of equal size in the sense that, when collusion equilibria exist, if firms are of equal size there is joint profits maximization. This was the case of the 2000 cartel scandal. Recalling Smith (1973), there is, in fact, a connection between profit maximization and price fixing. Again, protracted stability in the market is an unachievable ideal: the appearance of new competitors, technology innovations, along with changes in government policy, are constant threats to price (Austin A., 2004) and, according to Smith, the alternative response could be the effective safety net-price fixing. Moreover, tacit collusion can also take the form of postponed simultaneous investment by both firms (Huisman & Kort, 1998), and this could be the reason why the online development of Sotheby's and Christie's probably took place with a small delay.

6. CONCLUSION

In conclusion, in the last decade, and in particular after the economic crisis, Sotheby's and Christie's showed a sensitive reaction to the most recent market dynamics. This fact, which can be considered as an indicator of the "relative heteronomy" of the art world, defined by Graw (2009) in contrast with Bourdieu's model of "relative autonomy", describes the field of art as a relatively independent universe. In fact, according to the "relative heteronomy", the external constraints prevail, determining some impact factors for the art business. Auction houses' business has been challenged by a new competitive environment, characterized by hyper-competition, new technologies, globalization and emerging economies. The new internet economic model also had a great impact in determining new possibilities for the development of the art economy at large, lowering entry barriers in art consumption and defining new competitors. With this kind of challenges to overcome, Sotheby's and Christie's have been affected by a new need of innovation, a transformational approach of the concept of business model. The two auction houses have developed new strategies, paying a close attention to time, cognitive and cultural evolutions and constraints in the contemporary economic system.

As an answer to the current global market dynamics, the two organizations have begun new initiatives and projects. The most relevant strategies undertaken are different but are all an answer to the market challenges presented above. The global expansion has led Sotheby's and Christie's to consolidate their presence in fast-emerging markets, as Asia. To face the new competitive internet economic model they have improved the online-auction platforms and business intelligence systems to support digital sales strategies. Moreover, they have expanded their market segment focus increasing the share of the middle market (lots with a value of up to $2m). With the establishment of new departments, the auction houses have implemented a strategy focused in drawing new buyers into the art market by enticing them to buy diversified products. Other strategies concern new creative sales concepts, as the expansion of "demand-led curation", to appeal to new audiences and fuel interest. In order to face the increasing competition they have expanded in the primary market, pushing private art sales through art galleries and art advisory businesses acquisitions. In order to achieve growth beyond the auction model the houses has expanded in art related businesses, like brand licensing and education. Finally, new strategies concerning the increasing relevance of financial services, have led to the establishment of finance departments, which deal with the securitization of art and the offer of guarantees.

All these strategies, in their connection with the environment context, delineate the business model evolution. This strategic renewal has lead the two auction houses to diversify their business, becoming a core "hub" for the art market. Sotheby's and Christie's have begun new initiatives and projects, diversifying their business and exploiting all the possible market's opportunities. Art related businesses, the entrance in the primary market and financial services are a great example of the way through which the two organizations tried to achieve growth beyond the basic auction business model and to expand creating innovative business combinations. In this way, the two companies found a way to adapt to a fast-paced market and to answer to the increasing competition and new customers' needs.

However, the key impact factors and challenges for the business model evolution of the two companies have not just followed the trajectory of the environment's dynamics, they were also related to the interdependence and tactical interaction between the two auction houses. Even if, in this new globalized and competitive market, to define Sotheby's and Christie's as the 'duopoly' have become problematic from some points of view, certain characterizations of a duopolistic market are still present. The two companies share, in fact, 42 percent of the global auction market, 80 percent of the world auction market in high-value art, and an almost absolute monopoly on works selling for over $1 million, confirming their dominant control over the market. Consequently, their performance still depends on the presence of the other, pointing up the interdependency of the houses' business models. This study has demonstrated, in fact, how the companies' strategies have evolved not just following the trajectory of the global market's dynamics, but also in relation to each other.

6.1. Future possibilities and managerial implications

Concerning the future possibilities, this paper has pointed out some implications that are worth to investigate for practitioners. The evolution of the two auction houses' business model resulted, in fact, from the interaction among their resources, their organization and their capacity to propose new value propositions in the art market. The managerial choices have delineated a business model able to conciliate these different aspects and, in particular, the interaction with the environment and with other industry participants. The sustainability of this model definitely depended on the ability of the management to anticipate and react to the consequences of the evolution of the economic market and of the competition. Managers should look at Sotheby's and Christie's new initiatives and projects, which led to the diversification of their business and the exploitation of all the possible market's opportunities. In fact, the bundle of possible services an organization's resources can produce, finally depend on its management's capacity to extract value from their use and to create innovative combinations. This capability has been defined in this work as 'dynamic consistency', and underlines the two firms' capacity to change their business model while at the same time building and maintaining sustainable performance. Moreover, in this coevolution of companies, competitors, and environment, it is necessary to emphasize exploration over exploitation. A good managerial takeaway is that: *"As companies are increasingly forced to explore, they must become more entrepreneurial. The essence of entrepreneurship is the design of effective business models. Entrepreneurship is all about discovering (and exploiting) existing opportunities and/or creating such opportunities"* (Casadesus-Masanell & Ricart, 2007, p. 21).

6.2. Limitations and further research

Apart from the limitations concerning primary and secondary data collection and analysis, already addressed in the methodology chapter, this research presents other issues to discuss. As a qualitative research, its quality is dependent on the interpretative skills of the researcher, which can be influenced by personal idiosyncrasies and biases. Moreover, issues on confidentiality and anonymity can pose problems during presentation of findings, which can also be time consuming and difficult to present in visual ways. For all these different reasons, qualitative research is sometimes not accepted and understood especially within scientific communities. Consequently, future researches could focus on the development of a quantitative analysis of the phenomenon. In particular, it would be interesting to focus on each single emergent strategy identified, such as the expansion in fast-emerging markets or in the online segments. An analysis of the changed cost-structure of this new “hub” business model would also be very interesting. Moreover, I have focused mainly on business and economic related issues concerning competition, the online market place, and the changing patterns of global wealth. Additional topics which could be investigated in the future concern law, or in a more topical sense, the current issues surrounding geopolitics[9].

[9] Sotheby’s annual report (2013: 10), *“The global economy and the financial markets and political conditions of various countries may negatively affect Sotheby’s business and clients”.*

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8. APPENDIX

8.1. Interview Questions

1. From your point of view, what do you think are the most **relevant changes and innovations** the **art market** has experienced in the last years?

2. How do you think **Sotheby's and Christie's** reacted to those changes? Do you think their strategies were influenced from each other's moves?

3. Will the auction houses **shift into the primary sector**? In 2007, Christie's acquired Haunch of Venison and in 2008 we had Sotheby's Beautiful sale; were these just isolated responses to the then booming contemporary trade or they will have a long-term impact on how new work of art are sold?

4. What about **art as an asset class / art investing**? What do you think of art **financial services platforms at auction houses**?

5. What about the importance of **internet** for the future development of the auction houses' strategy? **New competitors** such as Paddle8 are a real risk for auction houses?

6. Do you think that we can still consider **Sotheby's** and **Christie's** a **duopoly**?

7. What do you think will be the **future strategic possibilities** for the two auction houses?

Is there anything else that you would like to add? Or, Do you think that there are other issues/points that I may have missed?

8.2. Interview n.1 Transcript

Date: 25/08/2016

Name: Giovina Carabba Tettamanti

Occupation: Artists' Estates & Collection Manager at Montabonel & Partners

Length: 35 minutes

Interview Questions

Interviewer (I): Hello Giovina! Thanks for having accepted this interview.

Respondent (R): Hi Adriana! I am ready to start.

I: Let me introduce the aim of this interview. As you already know, I am a Double Degree Master Student at Bocconi University and Copenhagen Business School. Currently, I am writing my thesis and this interview refers to the main topic of my project, that will be about Sotheby's and Christie's business model evolution in the last decade, according to the market dynamics. The first question concerns the most relevant changes and innovations that the art market has experienced in the last years. From your point of view, which are the most relevant?

R: For sure the expansion in new markets, like the Asian one, South America but also Africa. Sotheby's, for example, does not just have an African Art Department, but recently the house organized also a big sale of African Art. This is certainly a signal of the raising importance of globalization in art. Moreover, auction houses are developing new strategies to reach younger customers. For instance, they are organizing new sales with more affordable prices (between 400 and 2000 pounds). The intention is to capture new customers who potentially tomorrow will buy also more expensive art. Others two relevant trends are the rise of private sales and of the financial services. However, these trend are less evident to the public since are services done inside. Another interesting trend is the hiring of staff from the museum world, to give a more curatorial, prestigious and well established image of the business.

I: Very interesting. Giovina, how do you think Sotheby's and Christie's reacted to those changes? Do you think their strategies were influenced from each other's moves?

R: Definitely they are influencing each other. Wherever one house goes, the other follows. They cannot afford to stay back (look at the online and at the global diffusion). They tried to react to the market evolution in different ways, for example, with the acquisition of Art Agency Partners, Sotheby’s wanted to have access to an interesting customer base. It is like having an art advisor inside the auction house. However, they are not quick to innovate. Other actors in the market, smaller and dynamic, such as Phillips, have a "younger" strategy but also more sensitivity on the market. Phillips managed to fill market niches such as design and photography. We could call it "Contemporary Cheap". Sotheby's and Christie's are large entities, slowed down by bureaucracy and slow innovation processes. Collectors today have changed, the well-off young people definitely revise more in the model offered by Phillips with respect to the one offered by Sotheby's and Christie’s.

I: Do you think that the auction houses will also shift into the primary sector?

R: Maybe. They already have their private galleries. They know that they are slow in innovation and, consequently, they try to acquire everything: from art advisory firms, to private art galleries.

I: And what about art as an asset class / art investing? What do you think of art financial services platforms at auction houses?

R: This is definitely a relevant reality and a growing business. However, if you are not inside the business, you cannot see it. Everybody knows it exists, but it stays inside. In fact, there are little information about it, because it is inconsistent with the external image of the auction houses. The romantic idea of the collector and the auction house will disappear if the financial side and "money" one is advertised too much. Moreover, in financial services, it is vital that the artworks are highly certified, reason why the borrowing usually occur on works from the most high-end market.

I: What about the importance of the internet for the future development of the auction houses’ strategy? New competitors such as Paddle8 are a real risk for the two auction houses?

R: Internet definitely has much more importance than it was ten years ago. The customer base is, in fact, has changed. However, if at the beginning of the last decade both Sotheby's Christie's were trying to get in the online with immediate priority, nowadays is more a like a “necessary requirement”, and less an urgent priority. These auction houses tend to invest more on networks and on the experiential dimension of the auction. The online remains a side business you have to have to keep up with the times, but it will never be the central business.

I: Yes, I agree. Giovina, let’s talk about the competition between the two auction houses: do you think that we can still consider Sotheby’s and Christie’s a duopoly?

R: Yes, they can still be considered a duopoly. Nowadays, no other auction houses can be compared to Sotheby’s and Christie’s for prestige and dimension. However, for the future I would pay particular attention on emerging auction houses like Phillips, as I said before. In fact, Phillips is a dynamic reality, while Sotheby’s and Christie’s are more static. Even some of the employees have moved to Phillips. This auction house follows, in fact, a different strategy: it does in a great way what Sotheby’s and Christie’s are doing partially, such as Photography and Design. For instance, if a young collector wants to buy cool photography or design, it is more likely he will go to Phillips. However, these young collectors, more attracted by Phillips’, with high probability will be the great collectors of tomorrow and, more likely, will continue to buy from Phillips.

I: Concluding, what do you think will be the future strategic possibilities for the two auction houses?

R: Surely they will continue to incorporate as much as possible other businesses (the online, the primary market, financial services, etc.) to sustain from various directions. There will still be a tendency to keep separate the different dimensions in terms of image, as I said before concerning the financial services. Concluding, I would like to evidence that, acquiring various businesses, Sotheby's and Christie's are becoming more and more a "one stop shop", a hub where you can find any kind of services available in the art market and not just limited to auctions. It is their way to stay afloat nowadays. The collector has changed, hence the market has changed and the auction houses’ strategies are eventually changed.

I: Great! Thanks for your time.

R: You are welcome, Adriana!

8.3. Interview n.2 Transcript

Date: 27/09/2016

Name: the respondent has asked to remain anonymous

Occupation: Gallerist in London

Length: 25 minutes

Interview Questions

Interviewer (I): Hello! Thanks for having accepted this interview.

Respondent (R): Hi! You are welcome. How are you?

I: I am fine, thanks. Let me introduce myself and the aim of this interview. I am Adriana, a Double Degree Master Student at Bocconi University and Copenhagen Business School. Currently, I am writing my thesis and this interview refers to the main topic of my project, that will be about Sotheby's and Christie's business model evolution in the last decade, according to the market dynamics. Shall we start?

R: Very interesting, let's begin.

I: From your point of view, what do you think are the most relevant changes and innovations the art market has experienced in the last years?

R: First, I would definitely say globalization. The development of markets follow a cyclical rhythm and, in this case, is starting to influence new regions, such as Asia, South America, but also places like Iran and Lebanon. Secondly, I would make a socio-economic consideration. The technologic innovation has a predominant role in the development of the Internet, online bidding and online auction houses. This has a double consequence: to reach more customers and more visibility for the artworks; but also to shift to a lower-end market with the online bidding. Finally, I would add the relevance of fashion trends in the art market. In fact, in different moments in time, we have the development of the appreciation of particular art movements. For example, right now there is a great attention on the monochrome movement and on the Roman school (like Mimmo Rotella).

I: Very clear. So, how do you think Sotheby’s and Christie’s reacted to those changes? Do you think their strategies were influenced from each other’s moves?

R: Yeah, for sure. We can define them a duopoly in a certain sense. Of course, Sotheby’s and Christie’s are the leading auction houses in the top five. Their strategies influence each other, for instance, the Italian sales auction was created by both of them, and one followed the other. Concerning the approach to the technology, they have started doing the bid online and the online auctions. The globalization has led to open to new market with the creation of specific auctions like the one on African art, for example. Having a look in the long-term strategy, these two auction houses, but also Phillips, are certainly looking for new ways to increase the pool of customers with new auctions. Auctions like “Contemporary Curate” or “New Now” are under $3 millions and approach different kind of collectors.

I: Do you think that the auction houses will shift into the primary sector?

R: They already did it in some way. Actually, I would say they found a way to end up on the art galleries’ market through managerial choices. However, I would say that in this case we are not talking about a proper primary market but about an expansion strategy of the auction houses. The real primary market is different, has other timings and dynamics.

I: What about art as an asset class / art investing? What do you think of art financial services platforms at auction houses?

R: Financial services have little to do with art, they are services that belong to banks. In this case art becomes a collateral to give loans and advances. Nowadays financial services offered by auction houses are particularly relevant and have more and more importance. However, we do not have to forget that this is not a new service, but it is a mechanism that has developed and expanded over time. The first auction guarantee happened in 1956, when Sotheby’s chairman Peter Wilson was trying to persuade a retired naval officer to consign Poussin’s Adoration of the Shepherds to its London auction block. Wilson offered Beauchamp a guaranteed sum which was the first ever offered by an auctioneer to a vendor. The painting was eventually sold for £29,000 to art dealer David Koetser.

I: What about the importance of internet for the future development of the auction houses' strategy? New competitors such as Paddle8 are a real risk for auction houses?

R: Concerning the development of the online market I would make two considerations. Of course, when we are talking of spending millions of euros or pounds on a piece of art, people want to see the piece in person, this is understandable and could be a factor of detriment of the development of the online market. The second consideration concern exactly the fact that this mechanism work when the object sold are not particularly expensive or when there is a direct relation, strongly based on trust, between the two entities of the exchange.

I: Do you think that we can still consider Sotheby's and Christie's a duopoly?

R: Yes, but until a certain point. Of course, Sotheby's and Christie's represents two of the main actors of the market, but the advent of globalization has brought in the game new competitors such as the Chinese auction houses. Moreover, the strategic choices followed by the auction houses are currently more and more influenced by institutions such as galleries and museum. The influence is mutual. For instance, if the price of an artwork reach high levels at auction, the galleries will be forced to raise the price too.

I: What do you think will be the future strategic choices for the two auction houses?

R: I think that there will be more and more attentions towards specific emergent markets. For example, just the presence of a relevant collector in Mexico could bring interest in the country as a potential market. Another key strategic factor for the future is certainly the technology exploitation. This can be used also as an educational discourse to young customers that will be the relevant collectors of tomorrow. They are involved in the auction world also through the organization of events, through specific auctions of a lower price range and through a strategic use of social media.

I: Thanks very much. If you do not have anything to add, the interview is concluded.

R: Thanks to you!

8.4. Interview n.3 Transcript

Date: 11/10/2016

Name: Emilie Ryan

Occupation: IE to Deputy Chairman, Christie's

Length: 30 minutes

Interview Questions

Interviewer (I): Hello Emily! How are you? Thanks for having accepted this interview.

Respondent (R): Hi Adriana! I'm fine, thanks! I am happy to help you in your research.

I: Let me introduce the aim of this interview. As you already know, I am a Double Degree Master Student at Bocconi University and Copenhagen Business School. Currently, I am writing my thesis and this interview refers to the main topic of my project, that will be about Sotheby's and Christie's business model evolution in the last decade, according to the market dynamics. Shall we start?

R: Absolutely!

I: From your point of view, what do you think are the most relevant changes and innovations the art market has experienced in the last years?

R: I would definitely say the global extension of the trade. But also the career-oriented emphasis in art education, since nowadays it seems that everyone wants to work in the Art World. Also the emergence of new competitors is a relevant issue.

I: Thanks Emily. So, how do you think Sotheby's and Christie's reacted to those changes? Do you think their strategies were influenced from each other's moves?

R: Sotheby's and Christie's are slowly trying to react to the new face of the Art Market. In 2015 Christie's has acquired Collectrium, the leading global digital art collection management solution. Founded in 2009, the subscription-based service offers collectors a highly secure, cloud-based solution for accessing and managing their art collections from anywhere and on any digital device. Over 25,000 art collectors currently use Collectrium to discover, track, and manage art. Concerning Sotheby's, in early 2016 Sotheby's has acquired Amy Cappellazzo's Art Agency Partners for $50 Million. The goal is to create an advisory-styled client services for the auction house. Both auction house are investing in IT (database to track masterpiecese…). Christie's is investing in a new office space in Beijing, China, which will open next month. Both auction house have increased their Buyer's Premium. Moreover, every years there are more and more online sales. Of course, the strategies of the two auction houses are extremely influenced from each other, but there are new players in the market like Bonhams, Philipps, Auctionata.

I: Do you think that the auction houses will shift into the primary sector?

R: It could be. More and more often we see pure exhibitions in the sale room of Christie's (eg. 250th Anniversary of Christie's). We have just inaugurated our new galleries in King Street, London. It will be difficult to shift to the primary sector for all departments (eg. Furniture, Old Masters). The story beyond those departments is too old and difficult to face the new market. Post War and Contemporary could easily shift to the primary sector. First Open auction series have accessible prices and discover some of today's contemporary stars.

I: What about art as an asset class / art investing? What do you think of art financial services platforms at auction houses?

R: Art is now seen as an investment! I will send you a couple of case studies from Christie's about it.

CHRISTIE'S

Magritte's appreciation: Case Study
Le baiser, 1957

Le baiser, 1957
Sold for $1,095,361
Christie's London, 2005

Le baiser, 1957
Sold for $1,935,428
Christie's London, 2010

Le baiser
Sale for $3,128,346
Christie's London, 2015

CHRISTIE'S

Dalí's appreciation: Case Study
Le voyage fantastique, 1965

Le voyage fantastique, 1965
Sold for $1,141,959
Christie's London, 2007

Le voyage fantastique, 1965
Sold for $1,930,000
Sotheby's New York, 2011

Le voyage fantastique, 1965
Sold for $2,053,700
Christie's London, February 2016

I: What about the importance of internet for the future development of the auction houses' strategy? New competitors such as Paddle8 are a real risk for auction houses?

R: Internet will be the future also for the art world but it will take some time before a $50M work of art will be sold over the internet. A new generation of website has been created, like artnet and artsy. Christie's is expanding the online sale and it's a way to find new buyers in the core market (see the sale of A. Warhol foundation in 2012), while Sotheby's collaborates with eBay. The key element is to built trust online and Sotheby's and Christie's use their long history and prestige to jeopardize the market. At Christie's, online bidders participate in the evening sale via the live auctions. In particular, many bidders were present online during the PWC evening sale at Christie's in October 2016.

I: Do you think that we can still consider Sotheby's and Christie's a duopoly?

R: Christie's and Sotheby's are not a duopoly anymore. New players are entering the market (new auction houses: Guardian, Poly in China, Bonhams, Philip's; dealers and mega galleries). Moreover, Christie's is private, Sotheby's is public and quoted. Of course, both auction house have been the motor of the market growth, creating and stimulating demand. Christie's strategy is bringing the profile into a more consumer oriented 'the art of people' (attention at the core market). New players are entering the market and the auction houses need to adapt quickly and reshape their old structure in order to stay the leader of the market.

I: What do you think will be the future strategic choices for the two auction houses?

R: I think that future strategic choices will continue to move in the direction of the environment evolution, following the market dynamics. Moreover, Sotheby's and Christie's will continue to follow each other in the 'expansion game'.

I: Thanks very much. If you do not have anything to add, the interview is concluded.

R: Thanks to you!