

The Tipping Point

78

Online auction houses, energized by a string of new partnerships, mergers and acquisitions, and technological advances, are poised to capture a significant share of the art market

BY SARA ROFFINO

AUCTIONATA



MANAGING DIRECTOR
JOE STASKO

● Germany's largest auction house is an online-only endeavor founded by Georg Untersalmberger and Alexander Zacke in 2012 with the intention of bringing the brick-and-mortar experience to the Internet. Managing director Joe Stasko leads the operation. Works are appraised by specialists who are present for the auctions, which are conducted by an auctioneer who manages the sales from one of the house's production studios in New York and Berlin. In June, Auctionata set the record for the most expensive piece of art yet traded online with a Chinese clock that sold for \$3.83 million.



evang Thakkar spent 10 years developing new products for Microsoft in the Pacific Northwest before relocating to New York in August to apply his expertise to the field of online art sales at Artsy. “The art world has just started the collection of data,” says Thakkar. “Companies like us and others have been collecting data, and now we’re at the tipping point that allows us to start building algorithms and testing them out.”

If Thakkar and his peers—those with whom he works at Artsy and others working across the online auction industry at companies like Paddle8, Auctionata, and Artnet—are accurate in their expectations for those algorithms, online art sales could change significantly more than just where people buy art. So far the dollar volume claimed by online art sales is modest, and predictions for growth vary dramatically. The annual TEFAF report placed online art sales for 2014 at \$3.3 billion, or approximately 6 percent of the value of the international art and antiquities trade. Meanwhile, London-based insurer Hiscox placed the 2014 market at \$2.6 billion, up from \$1.6 billion in 2013. Even more telling, the company revised its prediction for the value of the market five years out to \$6.3 billion in 2019, up from last year’s forecast of just \$3.8 billion in 2018. The drastic difference between these numbers speaks to the ambiguity around the online art auction market, but whatever share of the pie these operations can claim, their innovations in technology and marketing are poised to initiate changes that will ripple through the industry, altering the expectations of collectors and ultimately the roles of even off-line workers like gallery directors and category specialists at brick-and-mortar auction houses.

From the use of open platforms like Instagram to sell



Auction No. 324
The Golden Age of Modern Art
Sep 25, 2015, 12 pm EDT
Berlin

52 items
Total Starting Price: €320,000

Our upcoming auction offers an effective selection of paintings, sculptures and prints with varying starting prices. Inspired by the Venice Biennale, some works such as Pablo de Picasso painting 'Cecile & Thérèse' portray the popular subject. Former auction highlights include chief artists of the Munich artist group 'Schüler', including Leo Piss and Edward Casari. Pure Expressionist works on paper by important Modern artists such as Paul Klee, Oskar Kokoschka and Wassily Kandinsky round out the impressive selection.

[View items in this auction](#)

20th Century Decorative Arts, Murano ... Auction No. 316

6:17 pm CET

11
Aldo Tura, Online Serving Trolley, Italy, 1970s

Sold for 340 €

More about this item

United Kingdom
Kamal, bidder 177062, from United Kingdom
Auctioneer: BJ 340 €

Ask a question | Live | Support LIVE

AUCTIONATA

Auctions Selling Shop Experts

What are your items really worth?



Please fill in your contact details below to begin your complimentary valuation. You will receive a response within 3 business days.

First name
Last name
Phone number
Email address

By clicking 'Start valuation' you agree to accept our Terms and Conditions and Privacy Policy.

[Start valuation](#)

I am an art professional →
I have a large estate →

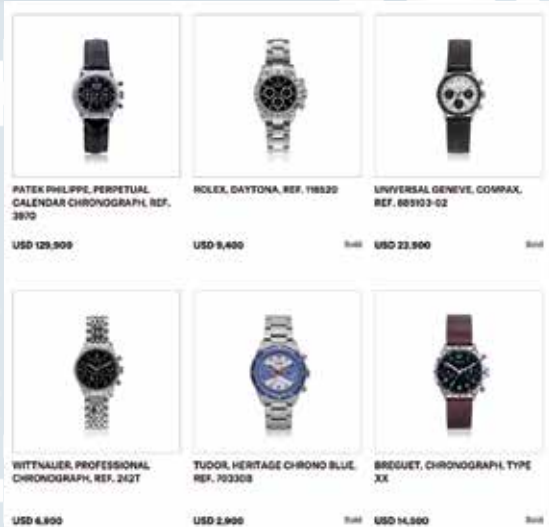
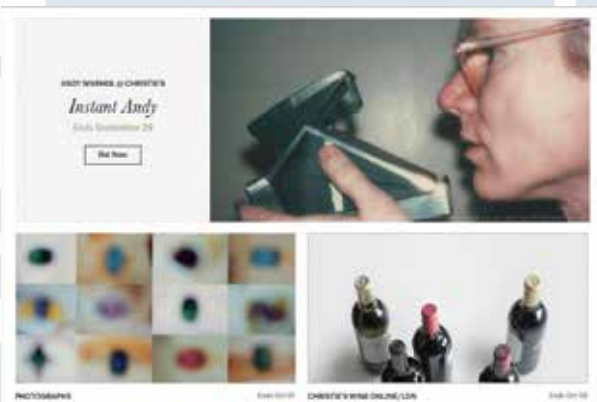
Call us toll free on +1 (855) 475-8342
Monday to Friday 9am - 5pm EST

CHRISTIE'S



INTERNATIONAL
MANAGING DIRECTOR
OF E-COMMERCE
JOHN AUERBACH

● The powerhouse hired John Auerbach, previously of Gilt Groupe, in 2012, in a move that testifies to the fact that the greatest potential for online sales right now veers more to luxury items than high-end fine art. The firm has been using their online platform—all of which is designed and maintained in-house—to sell works from the Warhol estate, and maintains online stores for both watches and handbags. Clients can digitally participate in all auctions, except for postwar and contemporary and Imp/mod evening sales.



works, to the development of specialized sites like ArtList, which allows direct, anonymous, peer-to-peer sales among collectors, the intersection of art commerce and the Internet is rapidly changing and rife with potential. The line between private sales and public auctions has blurred: Christie's and eBay both offer a buy-it-now option, while Auctionata moves works that do not sell at auction to a store on the site. However, for the sake of concision, we focus here on online auction platforms, dozens of which have emerged in recent years, though no two offer exactly the same service or experience.

“One of the difficulties with online auctions is that you have to use them a few times to understand how the model works,” notes Meghan Carleton, a partner at the art advisory and financing firm AOI Advisors, who has regularly bid in online auctions for more than five years. “All the platforms are really different.” And while the front-end user interface is crucial, significant changes are also afoot behind the scenes, from digital consigning to the conglomeration of boutique and regional auction houses on third-party platforms like Invaluable, which offers live-streaming services for houses on its own platform and also serves as eBay's exclusive partner for live auctions.

Christie's and Sotheby's have taken markedly different approaches to their online expansion. Christie's has remained insular, developing its own technology and launching Christie's Live, a platform for live-streaming auctions and online bidding, in 2006. Collectors can participate in all sales through Christie's Live—except for postwar contemporary and Impressionist/modern evening sales, meaning that the priciest pieces are still available only to those who attend in person or participate over the phone. In 2011 the house introduced an e-commerce channel, which includes online-only auctions in 21 of its 82 categories, and buy-it-now shops for watches and handbags. Among other activities, since 2013 the site has been auctioning off thousands of Andy Warhol lots through an exclusive deal with the Warhol Foundation.

“The growth of the e-commerce channel has been substantial but measured,” notes John Auerbach, international managing director for digital and e-commerce at Christie's. “Our intention is to expand our online offerings at a pace that matches what our clients and the larger market are asking for.” According to midyear reports released by the house, 163 online-only auctions have taken place since the platform launched in 2011, 77 of which were between mid 2014 and mid 2015. The e-commerce platform accounted for 16 percent of new buyers. Christie's has remained unwilling, however, to share the results of its online sales, a factor that feeds speculation that these auctions have

ARTSY

increased sales volume and the customer base rather than profits, and therefore risk undermining the elite image of the house.

Dallas-based Heritage Auctions saw \$360 million in online sales in 2014—more than one-third of its total revenue for the year. Like Christie's, Heritage has built and used its own technology since 1974. Though fine and decorative arts account for only about 20 percent of Heritage's business, the house's approach to the online market is notable. It runs both live-streamed auctions and timed, online-only sales and has developed advanced features, such as a tool that adds three to six seconds to the end of a timed sale so an auction doesn't stop while people are still actively bidding.

As at other firms, the current technology initiatives at Heritage include a focus on the exploitation of big data. "Data development is a big deal," says COO Paul Minshull. "If someone looks at meteorites every time they come on the site, we show them meteorites when they land on the site." The house holds a strong position in the wider online auction market, the foundation of which is its coin and comics categories, yet it is continuing to grow its brick-and-mortar business as well, with expansions into Hong Kong and the Netherlands that began in the second half of this year.

The strategy of Sotheby's in the online realm has always been one of partnership. Back in 2002, the house took a risky but forward-thinking move by partnering with eBay. The deal was a flop, with the auction house losing \$100 million in the first year of what was supposed to be a three-year arrangement. But Sotheby's is now getting back in the game and continuing to build partnerships across the auction landscape: In early September the house announced it was joining forces with Artsy.

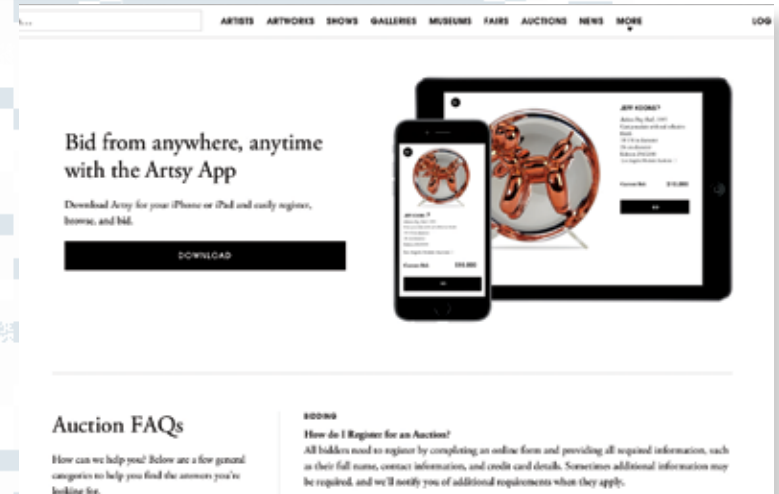
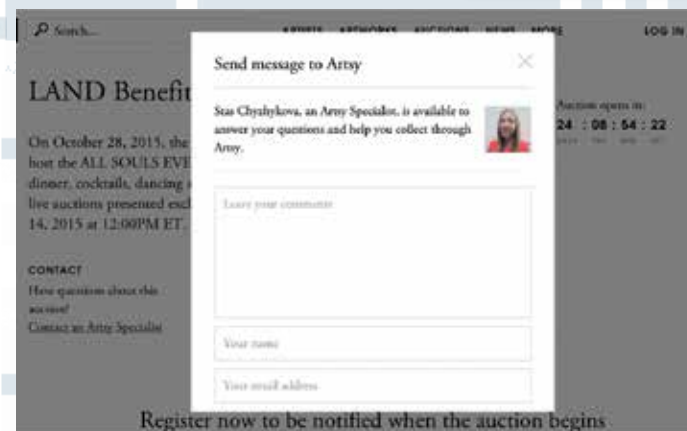
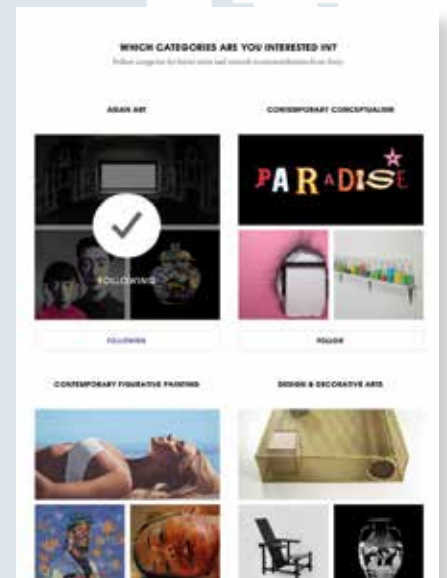
"Our goal is for our audiences to be able to engage with us through whatever platforms they want to use," explained David Goodman, who joined Sotheby's as executive vice president of digital development and marketing in June, following the inaugural live streaming of a Sotheby's auction on eBay in April. The house's rekindled relationship with eBay is part of a three-way agreement that also includes Invaluable, the online auction platform currently sweeping through the industry. Since Sotheby's started working with Invaluable in March, the house has seen a 55 percent increase in bidder participation and has generated more than \$40 million in online sales.

"We use Invaluable technology to power the live auctions; they are like the pipes in the backend," explained Lexi Sack, eBay senior manager for art and live auctions. In the new deal, Invaluable provides the technology for live-streaming and eBay, hopefully, brings in the masses to participate in sales. "Invaluable provided us the opportunity to scale in a



CHIEF CURATOR AND DIRECTOR OF STRATEGIC PARTNERSHIPS CHRISTINE KUAN; AUCTION PRODUCT MANAGER DEVANG THAKKAR

● Since launching in 2010, the online-only venture founded by Carter Cleveland has been committed to a mission of making "art accessible to everyone." The start-up partners with museums, galleries, and art fairs, and most recently Sotheby's—posting available works and allowing potential buyers to inquire via their platform. Recently hired away from Microsoft, Devang Thakkar is driving the company's use of big data, while Christine Kuan has secured partners ranging from Sotheby's to Art Basel.



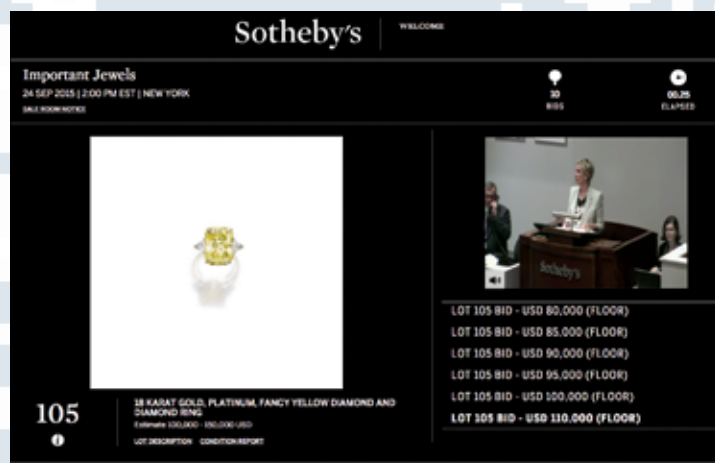
CLOCKWISE FROM TOP LEFT: TWO IMAGES, NICK SIMMONS AND ARTSY; THREE IMAGES, ARTSY

SOTHEBY'S



EXECUTIVE VICE PRESIDENT OF DIGITAL DEVELOPMENT AND MARKETING DAVID GOODMAN

● Under the guidance of David Goodman, who joined the house in June, Sotheby's is taking a predominantly partnership-based approach to their online expansion: They are currently working with eBay, Invaluable, and Artsy in hopes of growing their clientele for lesser-valued works. The house is also building out their online editorial content, a strategy being employed across the industry, as data shows that the more information collectors have, the more likely they are to bid on works.



82



very quick manner,” noted Sack. (In September, eBay announced it had also partnered with Phillips, which is now headed by Edward Dolman, who led Christie’s at the time of the original 2002 eBay-Sotheby’s deal.)

Founded in 1989 as Artifact, an auction results database subscription service, Invaluable relaunched as an auction platform in 2014, providing a portal for sales but avoiding the consignment side of the business by acting as a clearinghouse for wares from brick-and-mortar houses, and taking a fee for each sale. By mid 2015 the company claimed to be adding around 70 houses to its roster every month, with steadily increasing momentum. More a tech firm than an art endeavor, Invaluable has attracted the attention of venture capitalists, and according to CEO Rob Weisberg, it raised \$34 million in May of last year. In addition to expanding partnerships and building technology, the company “is always looking for opportunities to consolidate if there are companies out there that we think are worth acquiring.” One auctioneer, who asked to remain anonymous, said he had recently received a call from the SEC inquiring about the implications of a merger between Invaluable and LiveAuctioneers, Invaluable’s main competitor in the field, though other platforms, Sweden-based Barnebys for instance, are also gaining ground in both Europe and the United States.

As on eBay, the quality and price of lots on Invaluable cover a vast range—from \$25 pens to vintage cars to Rauschenbergs—and the curation and vetting of lots and consignors is largely left to partner auctioneers. Several boutique auction houses had concerns about partnering with such a large company, which led them in August 2014 to create Bidsquare, a similar but much smaller platform. Collaboratively built and funded by six American houses—Brunk Auctions, Cowan’s Auctions, Leslie Hindman Auctioneers, Pook & Pook, Rago, and Skinner—the site is growing steadily, though long-term plans are still evolving. “We’re curated, so we turn away a lot of auction houses,” says Bidsquare CEO Allis Ghim. “We know there is a lot of supply out there, especially in the middle market, so there was a need to build a platform where users can trust that the sellers are reputable.” They can also trust “that the items they’re purchasing have been vetted by our specialists.”

Regardless of concerns about Invaluable, the site’s sales volume and its network of tens of thousands of bidders from all over the world make partnerships attractive even for auctioneers with their own technological prowess, including the Berlin-based online-only live-streaming auction house Auctionata, which has made its lots available on Invaluable since 2012. Despite laying off more than half of its New York staff in April of this year—less than a year after opening an American office—Auctionata saw

PADDLE8

195 percent growth in the first half of 2015, with total sales for the period at \$39.7 million, and in late September, the house announced the acquisition of the London-based online valuation company ValueMyStuff. Now the largest auction house in Germany and on track to complete more than 200 sales this year, Auctionata holds the record for the most expensive piece of art ever sold in an online auction: a Chinese automaton clock purchased by the Chinese collector Liu Yiqian for \$3.83 million this past June.

As the house expands and builds more data into its platform, it's likely this record will not hold for long. "Our platform allows us to leverage all the data about trends, buying, interests, prices, and crossover categories to focus and target our growth," says Auctionata managing director Joe Stasko. "Even when users are just looking and not buying, the information we gather is very powerful."

Meanwhile, the other major Sotheby's partnership, with Artsy, is just taking form. "We're bringing together a 270-year-old brand and cutting-edge technology," says Christine Kuan, Artsy's chief curator and director of strategic partnerships. "That's a signal to me that the art market is ready for new approaches to collecting." With just one joint auction completed to date in the Sotheby's/Artsy collaboration—a time-based, online-only sale of contemporary works relating to technology—the size and parameters of offerings under the partnership remain unclear, though Artsy has high hopes for its future in online auctions.

The tech company launched in 2010, but its business model has shifted over time; its mission envisions not only a social media–modeled educational initiative that makes access to art more democratic, but a matchmaker service for collectors and galleries around the world. While both these activities have garnered attention, the massive data collection that Artsy has been engaged in behind the scenes is perhaps of greater long-term significance: What people search, what they like, and what they buy are all being recorded. "Artsy has collected a ton of insights and information about how online auctions are evolving and how statistics and analysis play a role in the discovery and collection of art," says Thakkar, now Artsy's auction product manager.

All Internet companies collect this sort of data, and rudimentary access to a massive amount of sales information is now available to the public through the indexes of closed sales on the websites of Christie's, Sotheby's, and Invaluable, and from larger databases accessible for a fee from Artnet and Artprice and for free from the Blouin Art Sales Index.

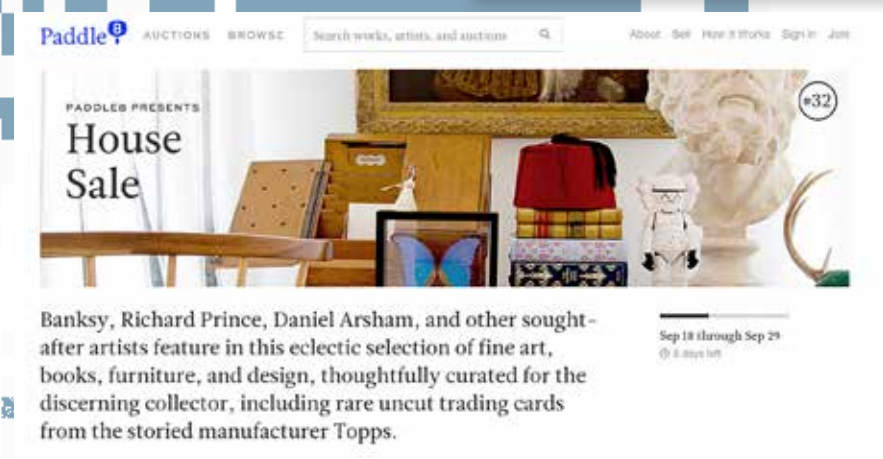
What potentially sets Artsy apart is that all other databases are exclusive to auctions, but because Artsy also hosts galleries and receives a commission on sales generated through its site, the company is in a *(continued on page 114)*



CO-FOUNDER AND CEO ADITYA JULKA; CO-FOUNDER AND PRESIDENT ALEXANDER GILKES; CO-FOUNDER AND COO OSMAN KHAN



● Aditya Julka, Alexander Gilkes, Osman Khan, and Hikari Yokoyama came together in 2011 to found an online-only house in a melding of art and technology. Rather than trying to fit the traditional auction house into an online model, Paddle8 is building technology that transforms the entire auction experience—from consigning to shipping. After building their name with a focus on benefit auctions, the house is now expanding to include a wide range of collectibles, from sneakers to art toys.



CLOCKWISE FROM TOP LEFT: THREE IMAGES, WESTON WELLS; THREE IMAGES, PADDLE8

position to gather and analyze data on private sales—a crucial element in constructing a truly comprehensive art index.

“Building this sort of transparency will also benefit and grow the general market by bringing more trust all around,” states Thakkar. “We can use the power of data to help our collectors be smarter about what they’re collecting.” The technology is still being developed, but the ultimate hope is to build a tool like Zillow—an app that provides the current estimated value of a piece of real estate—for the valuation of art.

Similarly driven by a vision of integrating art knowledge with technology is Paddle8. The go-to site for benefit auctions is also expanding rapidly into for-profit auctions and has seen 160 percent growth in that area year over year, adding new categories like fashion, art toys, and memorabilia this year. The 2011 start-up is also planning its first-ever in-person, for-profit auction, to take place in early 2016. According to Paddle8’s head of communications, Sarah Goulet, the firm will “reenvision what an evening sale can be, blending technology, entertainment, and the drama of the auction room at a special live event in L.A.” Also, in a move to expand beyond auctions into the realm of private sales, Paddle8 introduced buy-it-now sales in August 2014. Last month Paddle8 announced that David Zwirner had invested and would join the firm’s board and would sell select pieces from his gallery on the site. “I think he sees this as a great place to sell some of the lower-value works, which were gathering dust in storage,” explains Paddle8 cofounder and president Alexander Gilkes.

One aspect of Paddle8’s success is its focus on the consignor. The company’s consignment rates are the lowest in the industry, in part because of what it calls a drop-ship model: consignors send images via an app or email, and works are shipped directly from seller to buyer, so there’s no need for storage, and shipping costs are greatly reduced. Another factor in Paddle8’s success is its highly curated approach to sales: Only 10 percent of pieces that are offered for consignment make it onto the site.

Paddle8’s data collection is used, according to cofounder and CEO Aditya Julka, “to guide nonprofits in sourcing works that are more likely to appeal to our audiences.” Adds founding partner and COO Osman Khan, “once you understand the consumer set in a very nuanced way, you can think about your consignments in a better manner, and you can think about what you show to individual buyers, as opposed to the standard home page.”

Artnet, a long-standing online auction platform that also conducts private sales, has reached a conclusion similar to Paddle8’s and Artsy’s when it comes to what gets people to bid. “Based on the customers we have observed and the historical data we’ve collected, most online auction decisions are based on the information that the bidder has access to,” explains CTO Jordan Jan. Following a hiatus of a year and a half, Artnet relaunched an expanded news site in February 2014. Artnet Auctions subsequently saw 13 percent growth in revenue over 2013 figures, with total sales reaching \$3.1 million and average lot value increasing 36 percent, to \$9,578, in 2014. “We’ve gotten more efficient when it comes to attracting the art that will sell well because we see from the historical data what kind of expectations and what kind of price we can promise to the owners,” says Jan.

Online auction sites are still most prevalent in the United States and Western Europe, but as Asian art markets continue to grow rapidly—with Epai Live in China and Saffronart in India notable in the online auction marketplace—the likelihood of Western companies maintaining industry dominance in the coming years is uncertain at best. The greatest changes ahead, though, are likely to further diminish geographical factors as market-driven editorial content and analytics-driven art viewing and collecting permeate all tiers of the online auction marketplace. ■

According to the complaint: “The unique nature of Sol LeWitt’s wall drawings renders their accompanying certificates of authenticity critical to the works’ value.” It also points out that every LeWitt certificate reads, “This certification is the signature for the wall drawing and must accompany the wall drawing if it is sold or otherwise transferred.”

Steinkamp sued in New York because he had delivered the piece there. A few weeks after the suit was filed, the parties reached an undisclosed settlement out of court. The gallery’s insurance refused to cover the loss.

“If only there were insurance for this kind of thing,” huffed Ashley.

Actually, though our client had failed to take advantage of it, such insurance does now exist. Just this year, insurance brokerage firm Crystal & Company—a leading adviser to financial institutions and art collectors—teamed up with AIG Private Client Group to offer insurance for Conceptual art pieces that compensates collectors if a certificate is lost or damaged. Executive vice president Jonathan Crystal explains that when he originally asked AIG if certificates were covered, the insurer’s response was “of course.” However, based on his close reading of AIG’s policy, Crystal wasn’t so sure. That ambiguity led his company to add a simple endorsement to policies issued by AIG clearly stating that lost certificates are covered—at no additional cost. As Crystal points out, “When millions of dollars are at stake, people become very granular about contractual policy language.”

We told Ashley that certificates of authenticity are so important for Conceptual art that one of the first questions a buyer of such a piece should ask is whether the seller has a certificate—although in our experience this question often comes as an afterthought. Once a collector has a certificate, it should be stored in as safe a place as a physical artwork would be stored, and not in a loose-leaf binder with one’s business papers, as many people mistakenly do. Collectors should ensure that their heirs also clearly understand the importance of these documents.

Ashley’s next question was a good one. “Do I still own the copyright to the Conceptual works, allowing me to reproduce them? Or did I lose the copyrights in the fire too?”

There may have been no copyright to own, we explained, since Conceptual works are mainly ideas, and under U.S. law, ideas are not copyrightable. Moreover, copyright to the physical manifestation of the ideas—the artworks—would likely have been retained by the artists.

“What about the lost bills of sale for the works?” Ashley asked. “Can I get those replaced?”

The answer was maybe. In our experience, reputable galleries will often replace a lost bill of sale, which serves as both a receipt and evidence of the sale. The bill normally describes the artwork, parties, price, terms of payment, and date and place of sale. The buyer typically keeps the original signed by the artist or seller, while the seller keeps a copy. Some artists’ studios will even issue appraisals of works without certificates even if they won’t reissue the certificates themselves.

We suggested that Ashley check to see if her homeowner’s insurance coverage extended to valuable papers such as bills of sale and other documentation regarding her artwork, as some policies do. Under such coverage, the insurer would pay for the time and effort of having someone reissue the papers and restore the files.

“It seems as though losing a certificate of authenticity is worse than losing a bill of sale,” Ashley observed.

“Correct,” we replied. As Jonathan Crystal put it: “If your wedding license goes up in flames, it doesn’t mean you’re not married, but without your certificate of authenticity, your artwork no longer exists.”

Ashley was so inflamed by her predicament that she asked if we would write a column about lost certificates. Her one request? That it not be a puff piece. ■

THOMAS AND CHARLES DANZIGER ARE THE LEAD PARTNERS IN THE NEW YORK FIRM DANZIGER, DANZIGER & MURO, LLP, SPECIALIZING IN ART LAW. GO TO DANZIGER.COM FOR MORE INFORMATION.