



FOR WHOM THE BELL TOLLS: THE DEATH OF CHRISTIE'S AND SOTHEBY'S

Progress finally has caught up with the major art auction houses. Consider this carefully. You are reading that Christie's and Sotheby's death sentence is about to be carried out. It is time for the art industry to either be ready for the future or be left behind?

The concept of selling art at auction houses is an anachronism that has been held up by the traditions of art sales that have supported old forms and stodgy protocols for how to connect buyers and sellers.

The technology revolution is pretty much decimating every storied seller in every industry and the art auction houses are not immune to the revolution. It was inevitable. The auction house, a middleman that earns commissions that average 25 percent, has marked its own grave through its inefficiency. Just as fast the internet destroyed newspapers, the auction houses soon will be relegated to a footnote in the annals of history where the list of businesses that have died due to poor business judgment grows larger by the second.

For some, it is an incredible assertion that auction houses are dead when Sotheby's and Christie's have had recent record sales, but those who question these facts have not looked carefully at global auctions. While on its face, during the past five years gross auction market sales have been steady in terms of gross sales, closer scrutiny shows that the market has been buoyed by sales at the top 1 percent of the market which are not sustainable over time.

To put this in perspective consider that in 2007 the global auction market reached its peak at \$31.2 billion dollars while sales in 2011 were \$29.9 billion dollars. The recent numbers, however, are misleading because of record prices such as Giacometti's *L'Homme qui marche* at \$104 million dollars and Munch's *The Scream* at \$119.9 million. It is probable that in a healthier economic environment these prices would have not been achieved. In the art jargon, the Giacometti and Munch pieces are called objects of passion, which are "trophies" purchased by the super rich. According to Art Price, 58 percent of the total auction market revenue in 2011 came from 1% of all lots, i.e., the over inflated trophy art sales.

Record prices for these trophy pieces certainly do not reflect the general market. For example, according to Clare McAndrew, of the 36.8 million art transactions in 2011 only 1,680 lots were valued over \$1 million dollars. The bottom-line is that the amount of auction market sales are misleading.



The simple fact is that auction houses have onerous overhead, which they are afraid to shed. You cannot blame them, but they have marked their own graves. Theirs is a fate that they can neither avoid nor, as their actions show, wish to avoid.

You do not need to be Nostradamus to predict the future the art world. It is happening as this article is being written. Art funds are growing in value and in number. What began as an investment experiment in the late 70s has now been accepted as an institutionalized investment vehicle. Moreover, art funds have the resources to attract highly valued art portfolios and to form synergies with all the players of the art market, while auction houses are stepping on everybody's toes.

Internet sales are changing the infrastructure of the market; in the last couple of years they have had a slow but steady growth. On average 5% of the auction bidding and 10% of dealer sales are done online. Furthermore, internet has increased the amount of information available to the public creating a more transparent and competitive environment.

Ask the auction houses this question: Why do we need you? What are you doing for me? The answer is increasing irrelevant as the auction houses try to hold onto a position that already has been rendered irrelevant. This means the auction houses are blinded by self-preservation and cannot be trusted when asked to evaluate your artworks because they have such a high stake in the art that is being sold.

1994 work in Sears a guy in college tells you're going out of business ... The next great seller of electronics will not have a store. Will not have been in bunnies as of the last 200 years and will have a corporation with 200 Ivy league graduates. Yet that is exactly what will happen.

So what is the future? The traditional brick and mortar auction houses are dead; it is not a matter of if, but just how soon. Auction houses are an anachronism born of an age before the internet and proficient computer users. In the past, an auction house was an important location to connect a buyer and a seller. It was a place where accurate and real market prices were set. A seller was willing to pay a premium because there were limited means to reach buyers. But those days are gone. The auction house is an expensive middle man that has become an unnecessary transaction cost.

The future is an art exchange with lower overhead where commissions will almost be zero. It will look more like the New York Stock Exchange than Ebay or Amazon, but there is no doubt that the art market already has moved in this direction. Paintings will arrive in a centralized location, be catalogued and inspected by experts, and then sales will be conducted.

Javier Lumberras