

# Damien Hirst and the Contemporary Art Market

## “Business Strategies and Innovation in the Cultural Industries”

### Final Course Report

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# 1 External analysis of the art market

**Assuming the perspective of an art producer, analyze the art market through the models and tools for external analysis. What are the main sources of competitive threats?**

The following section is aimed at the identification of possible threat factors for Charles Saatchi's gallery. Within the value chain of the industry, it plays the role of a top-brand producer, representing the creator in the primary market. Consequently, by definition (Khaire, 2017) it "has a direct financial stake in the sale of a good [...] and is responsible for contributing material/physical attributes of value to the [work of art] and for conferring intangible markers of value on it via its discourse".

The most efficient tool to perform a similar analysis is Porter's *Five Forces Model*: even when only the first five essential factors (rivalry, supplier's and buyer's power, new entrants and substitute products) are taken into consideration, a quite accurate description of the threats in an industry can be sketched (see Figure 1 <sup>1</sup>). Nonetheless, being applied to art market, minor changes should be implemented, among which a better specification of "substitute product", here intended as imitations or reproductions of artworks (see later).

Hirst's case is paradigmatic as it shows how artists are likely to disruptively rearrange the configuration of the value chain. Creator's power is indeed a considerable source of threats for primary market producers. Focusing on top-branded galleries, artists are highly ranked by intermediaries and appreciated by collectors: in synthesis, they are an extremely valuable *resource* for a dealer, as reduced in number but incredibly large in size. Moreover, each work of art is unique from an aesthetical point of view and they are likely to forward-integrate, for instance dealing directly with secondary market (e.g. Hirst himself).

On the other side of the chain, collectors still maintain a considerable bargaining power: in this specific niche dealing with *star* artists, buyers are often millionnaires and their wealth is robust. Moreover, they are likely to backward-integrate: Charles Saatchi himself was a collector (in 1969 he made his first acquisition, buying a sculpture by Sol LeWitt) before starting working as producer.

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<sup>1</sup>Figure 1 sums up the main considerations of this section, mentioning only those elements which either minimize or maximize the considered threat factor. The PowerPoint presentation contains a more detailed description (slide 5), where the template proposed by Dyer et al. (2020, pp. 39–42) has been filled with personal observations based on the bibliographical references listed at the end of this document.

The last most relevant threat factor is rivalry. Even though the number of producers at this level of the market may be reduced, art dealers offer low-differentiated products. Art works are indeed unique for their symbolic value, yet two artefacts by different star artists and sold by distinct top-branded galleries are likely to have a similar social and economic value, as they can be both considered as *status symbol*. As a result, switching costs are reduced from this extra-aesthetical point of view. Besides, dealing artworks in this niche requires considerable amounts of capitals, which translates into relevant exit barriers.

Similarly, entry barriers are considerable high. Moreover, threats coming from new entrants are almost neutralized by network effects, which play a crucial role in this kind of transactions. In addition, affirmed galleries enjoy a brand reputation which is difficult to emulate for new ventures. Also imitations may not be considered a relevant menace. They can be interpreted as “substitutue products” as, even if similar, differ from originals for lack of unicity and authenticity. Their price is considerably lower but their “performance” as status symbols is incomparably lower.

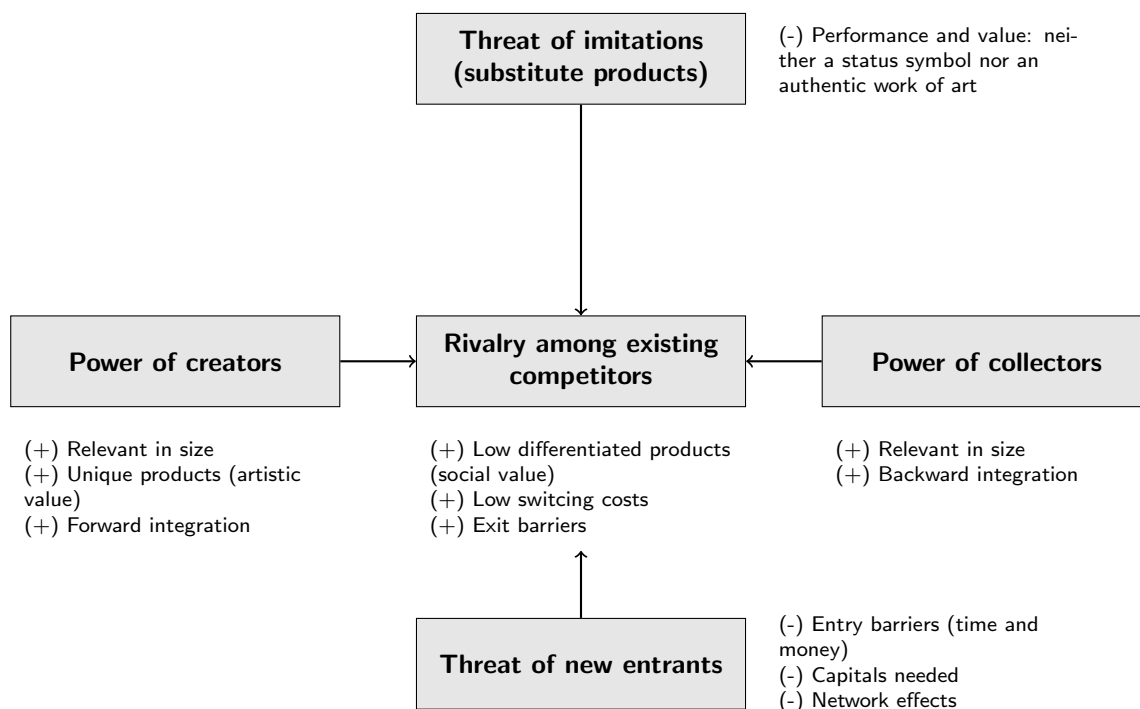


Figure 1: Main threat factors according to Porter’s *Five Forces Model*

In synthesis, rivalry, collector’s and creator’s power are the most relevant threat factors, mainly because they are reduced in number but considerably large in size. The deriving market

is then ruled by a fierce monopolistic competition: high entry barriers are raised and rivals are continuously monitored. Moreover, access to “competitive resources” (i.e. star artists) is severely limited, especially through exclusive contracts. Top-branded galleries define hence a close strategic group: indeed, as Thompson (2008, p. 31) comments, only “one or two dealers define each era in art”.

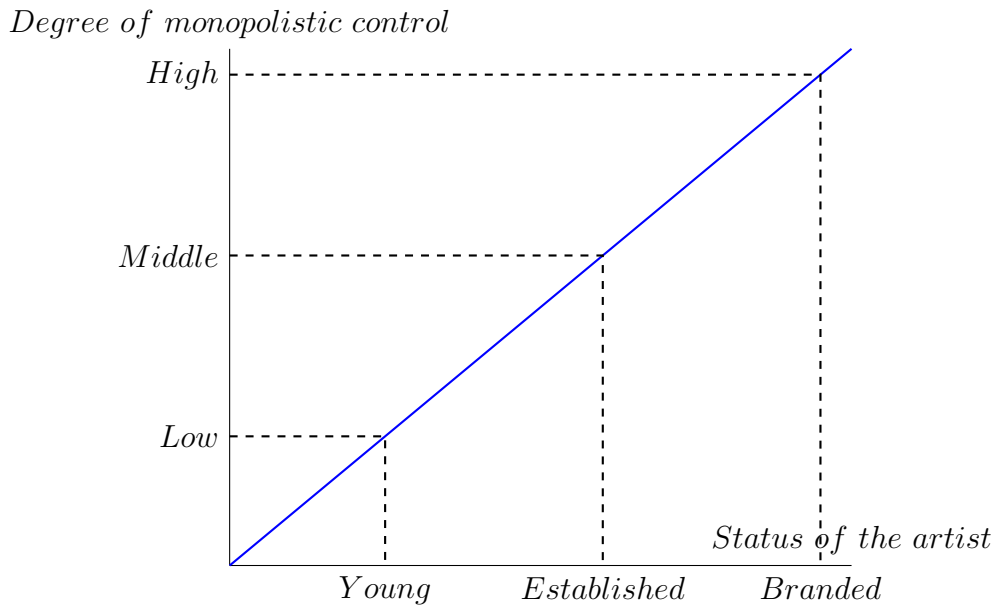


Figure 2: Correlation (Market expansion path) between monopolistic control and recognition of the artist in partnership with the focal producer, after Zorloni, 2005, p. 65.

## 2 Hirst's resources and capabilities

**Apply the VRIO model to analyze to what extent the resources and capabilities of Damien Hirst allowed him to gain a sustainable advantage over other contemporary art producers.**

Damien Hirst's capabilities and resources certainly allowed him to achieve a sustainable advantage over his competitors in the art market. Using the VRIO model (Value, Rarity, Inimitability, Organization to exploit), we can analyze how he attained such a vantage point throughout his career.

Hirst's works certainly bear specific characteristics that enhanced their value for possible customers. On one side, the artworks themselves are made with animal materials and parts: the author's primary objective, in fact, has always been to provoke and shock the audience. Of course, this aspect can easily attract mediatic attention, as it happened in 1995, when New York public health officials banned "Two f\*\*\*\*\* and two watching", an artwork which featured a rotting cow and a bull, fearing it could potentially induce sickness in the visitors. Moreover, this shock value combined with Hirst's fame and reputation also attracted wealthy buyers from all over the world (some of them being Ukrainian steel magnet Viktor Pinchuk and Korean retailing millionaire Kim Chang-Il).

But Hirst's artworks were, and still are, not only shocking and provoking: one of their most peculiar traits is their uniqueness. From the beginning, the consistent use of dead and dissected animals or animal parts made Damien Hirst's art instantaneously recognizable and distinct. This aspect was also identified and promoted by Hirst's first important collaborator, Charles Saatchi, who was familiar with the tactic from his experience in the advertising industry. But rarity also comes from within Hirst's career management: his decision to discontinue certain bodies of work, with which he followed through in November 2008, surely increased the demand for such artworks.

Another important aspect to take into consideration when analysing Damien Hirst's career is inimitability, achieved through different processes and strategies. One of them is the first-mover advantage: Hirst was, if not the only one, one of the first artists to use animals and animal parts in his works, and this allowed him to set an unprecedented concept that made any artist trying to replicate it somewhat resembling of a plagiarist. Even any attempt at

replicating his previous academic experiences can hardly bring to such a fast rise in the field: attending Goldsmiths College, albeit highly ranked by university guides, did not give Hirst his business eye nor the idea of adopting the role of curator at his own shows, therefore obtaining more control over his artworks. The intrinsic shock value of Hirst's installation, as stated, led to a rise of interest from wealthy customers and institutions and presumably triggered a network effect: the more wealthy and powerful buyers were investing in his works, the more popular these works became within that social class.

However, all these features easily become useless when unaccompanied by an organized structure able to exploit the business' profit. Again, this was not the case for Damien Hirst, who always benefited from the financial support of authoritative figures in the contemporary art market: his career initially took off as a result of Charles Saatchi's interest in him. The art collector, who first noticed Hirst at the "Freeze" independent student exhibition (1988) and was then left open-mouthed in front of Hirst's first major animal installation "A thousand years" (1990), gave full funding backing and total freedom to the artist. After their professional split in 2003, Hirst was quick to find another supporter in Jay Jopling, owner of the White Cube Gallery in London, and eventually embarked a fruitful partnership with Sotheby's auction house. Furthermore, already by the late 1990s Hirst started taking advantage of factory production: this meant not only a higher volume of possible work, but also higher profits.

### 3 Hirst's innovations to the standard business model

**Explain what innovations in the standard business model of an art producer Hirst implemented to achieve his competitive advantage.**

To achieve his competitive advantage Hirst implemented a series of innovation to the usual business model, both at the level of proper strategies and as changes in the single main components of the business model directed at enhancing his products' value.

First of all, Hirst's main innovation involved the unique value he exploited in his artworks: dead and dissected animals, the body parts of butterflies and all manner of other "unique" materials used by the artist were up to that moment completely ignored by the art world. Choosing to include this biological element let Hirst address a new market space worth multi-million dollars, that no one was directing their attentions to.

The creation of a new uncontested market space was the first step of what is usually called a Blue Ocean Innovation Strategy. While other contemporary artists were competing for the same "scarce food", creating a red ocean of "blood" because of intense rivalry, Hirst's success relied on swimming to the empty water of a blue ocean deprived of competitors, since he was the only one offering value that was very different from anything already seen on the established market.

In addition to this, contributing to the idea of a Blue Ocean Strategy, Hirst was also able, intentionally or not, to address a specific customer segment that was often left out from the art market, that is wealthy buyers from the Middle East that could buy his artworks given that they did not typically portray people and were therefore acceptable to Islam.

As the demand for his artworks increased, the need to deal with a sort of "mass-production" arised and Hirst embraced a factory-like approach: the artist started to work in strict contact with an art production company called Science Ltd and focused on two main production lines (spot paintings and spin paintings), for which his personal contribution was kept to the bare minimum, having Hirst paint only a small amount of "dots" on the artworks and completely relying on collaborators and assistants for the biggest part of the process.

Another huge innovation implemented by Hirst involved the distribution channels through which selling his artworks and could resemble the patterns of a Value Chain Reconfiguration strategy to Eliminate Activities: such strategy is usually based on reconfiguring the value chain

to eliminate activities or steps, most typically eliminating a step in the path from production to customer. Indeed, when partnering with Sotheby auction house in 2008, Hirst bypassed the conventional art distribution model that wanted primary dealers to sell to collectors, collectors to sell to auction houses, auction houses to secondary dealers who then sell on to collectors or galleries, and went straight to sell his artworks to auction houses, precisely removing one step of the “chain” by omitting the selling passage through primary dealers.

The role of primary dealers in the art market is mainly focused on validating the new artists entering the market and defining the parameters by which measuring their worth and talent, however Hirst started his career as a curator himself from the very beginning and was then able to exploit that training to enter directly in the secondary market, creating his own reputation and validation, supported only by the professional relationships he gained through the years. Among the others, undeniably the strongest and most advantageous ones, were the key partnerships with first Saatchi & Saatchi (analysed more in depth in the next paragraph) and then the one with Sotheby auction house, both fundamental steps to Hirst rise to fame.



## 4 Hirst and Saatchi's partnership

**How did Hirst manage to enhance the value of his artworks through partnerships? Explain the motivations underlying the partnership with Saatchi, the arrangement(s) found to sustain it, and the reasons why it collapsed.**

Hirst's and Saatchi's partnership greatly contributed to shaping the British artist's career and reputation, and it's therefore emblematic of his character, both as a creative and an entrepreneur.

We have to consider what always lay under the surface of Damien Hirst's artistic and economic alliances: high compatibility between him and his partner, almost total freedom when it came to art and production, and direct control over his reputation. For a personality like his, extroverted, materialistic, and eccentric, the strategy was to accept and enhance his uniqueness and for Charles Saatchi, one of the most important art collectors of contemporary art in the nineties, Hirst had all the potential to become a goldmine in the flesh, a new face for the cultural industry as a whole. What unified Hirst and Charles Saatchi was viewing an act of provocation as a shout for attention to the artistic world: Saatchi was also the co-founder of the global advertising agency Saatchi & Saatchi, a company that reached stardom thanks to its highly controversial advertising campaigns, and because of this, Hirst's work had an infinite appeal in the agency's eyes.

For Saatchi and Hirst, it was "love" at first sight. Saatchi's company funded all of Hirst's first creations without batting an eye: and they were all great successes, artworks that divided the critics and that, most important, were impossible to ignore. Between the positive attention from billionaires wanting to buy Hirst's creatures and the outrage that the young artist's popularity had arisen in the rest of the art world, Saatchi had, let's say, "hit the jackpot": they had found a brilliant creator who was completely aligned with their marketing strategy, and that seemed to never go out of style. As Charles Saatchi would later affirm Saatchi, 2009:

Lots of ambitious work by young artists ends up in a dumpster after its warehouse debut. So an unknown artist's big glass vitrine holding a rotting cow's head covered by maggots and swarms of buzzing flies may be pretty unsellable. Until the artist becomes a star. Then he can sell anything he touches.

We can define this type of alliance as vertical (since it respects the connection between

producer, Saatchi, and creator, Hirst) and contractual (the trademark that we have mentioned before represents a clear example of an official and bureaucratic agreement between the two parts), and by contemplating it under this light, we can also identify what, in the end, doomed Saatchi's and Hirst's partnership. In fact, even if the nature of their alliance established a clear hierarchy, Damien Hirst still considered himself above Saatchi: he was the artist, and he was the vision behind the profit that they were both earning from; what legally identified his art, his trademark, was a public recognition of this.

What fundamentally destroyed their business relationship was the opening of Saatchi's new art gallery in London: the show was supposed to include a retrospective on Hirst's work, but the artist voluntarily excluded himself and was incredibly annoyed that, to substitute him, Saatchi had placed a Mini car, decorated with his trademarks, as if it were artwork. The following fallout is self-explanatory, and it contains the germs of a crisis that went unnoticed for almost ten years: with that Mini Car, posed as artwork, Saatchi had behaved as if Hirst's work was something under his control when in reality, it was Hirst that placed it in his hands from the beginning; moreover, this event made clear that their partnership had always been immature because sustained by Hirst's compliance to collaborate and satisfaction. As the artist comments, when talking about this instance, "I'm not Charles Saatchi's barrel-organ monkey".

## 5 Criticalities in Hirst's approach

**Which are the criticalities that you devise in Damien Hirst's strategic approach? Would you do anything differently? If yes, what? If not, why?**

It is possible to sum up Damien Hirst's strategic approach according to four main business strategies: innovation strategy, blue ocean strategy, differentiation advantage strategy, key partnerships.

As pointed out in the previous answers, the main innovative strategy adopted by Hirst is the disintermediation, through the reconfiguration of the value-chain (Dyer et al., 2020, p. 181), adopted by selling artworks for the first time directly on auction houses. This decision to skip step taken for granted in the artwork, with the attraction of new customer segments, can be seen as part of the Blue Ocean Strategy, i.e. the attempt to explore a new market.

A third strategy adopted by Hirst is the differentiation advantage strategy: mainly through the use of unique materials, which contributes also to inimitability as defined in the VRIO framework, Hirst offered to the costumers a value that has been perceived as unique. Lastly, Hirst's success is largely due to the no-limits funding received by Saatchi for the production of the artworks in Hirst's early career. Saatchi as well as Sotheby's were key partners in Hirst's strategic approach.

Although Hirst's strategic approach was, and still is, largely successful, some criticalities, which have threatened his success, can be identified:

- The “factory production”: the large production of Hirst's artworks (jointly with the few contributions of the author itself) on the long-term didn't allow the ‘exit from the market’, a factor that increases the scarcity of works in circulation and facilitate future selling. In the VRIO framework, which gives a resource-based external approach on firm's trends, this is considered as a strategic approach that increase the ‘rarity’.
- Lack of reputation: jumping from the galleries directly to the auction houses, reduces the possibility to create a stable reputation in the art world, that is different from the success. The reputation is built on the network of relations that ensures a long-term presence. On the contrary, he has being criticised mostly by the inner workers of the art world, art critics and galleries owners.

- Lack of cost advantage: as demonstrated by the case of Beyond belief, Hirst hasn't adopted a strategic approach for the management of costs. At first, Hirst had Saatchi fundings, but as soon as he built an actual firm he should have adopted a more consistent approach for costs, based on a precise strategy.
- Organizational capabilities: from the issues related to the copyright of Hirst's artwork, which are partly still held by Saatchi, and the difficulties in the long-term partnerships, it emerges a lack in the management of intangible resources.

In order to overcome those criticalities and to improve the long-term success of Hirst's artworks, in my opinion some improvements that could be suggested are: to give more relevance to the 'rarity' of the VRIO framework, not intended just as uniqueness but mainly as scarcity; to overcome the dilemma of cultural industries, by following one specific strategy to balance the financial imperative and the cultural imperative; to affirm and give stability to Hirst's success and reputation; to select partners with a higher compatibility; to be more aware of the value production in cultural industries.

The first strategy comes from the external analysis and aims at creating the 'scarcity' phenomenon'. The unconventional way in which Hirst sold his artworks clashed with the art market conventions, dealing directly with costumers. Moreover, the establishment of a factory production increase the offer of Hirst's artworks. In the long-term, this two phenomena can bring to a lack of interest in Hirst's artworks, both because they are not unique and they don't have an additional value build through intermediaries.

One of the need for intermediaries in cultural industries is the building of a reputation, also defined as the cultural imperative 'gain status'. However, Hirst seems more interested in the financial imperative 'make money'. To manage this intersection of art and business and overcome the dilemma of cultural industries, there are some strategies that producers can follow (Khair, 2017, pp. 167–174), in particular, since he turns to factory production, an explicit decoupling approach could have ensure more stability.

The third strategy is aimed at overcome the lack of a solid artistic reputation, by re-establishing the value-chain model. Considering that Hirst followed the financial above the cultural imperative, he still could renounce to build a status through intermediaries, by building a solid relationship with customers through the service activities, as defined in the Michael

Porter's value chain.

The management of partnership is one of the more reason both for the success and for the criticalities of Hirst's strategic approach. In my opinion a strongest strategic approach in the very first step of the formation of the alliance with Saatchi, could have avoided some of the challenges of this alliance, and in particular the highest conflictual moment caused by the retrospective exhibition of Hirst's early artworks, which was a clear financial strategy by Saatchi which seemed to clash with an undefined cultural interest of Hirst. In particular, suggested improvements could be a clear legal contract on the "exit issues" (as suggested in Dyer et al., 2020, p. 145) with Saatchi and the adoption of economical strategies by Hirst in order to avoid the 'hold up' by investors.

The last strategic improvement is based on acquisition of awareness in the value production in cultural industries. The value production in cultural industries is not built on the effective cost of materials, but on the whole of the creation, selling, delivering, buying, e.g. "Beyond belief", since a cultural object has not adjunctive costs based on materials. Although Hirsts succeeded in the creation of this value, he lacked of a proper strategic approach. The lack of strategy brings to this up-and-down in his career after the partnership with Saatchi. Finally, it must be underlined that the real competitive advantage in this case study is based on the personal resources of the artist himself, who was able to overcome a lot of threats in unique ways.

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