

# Book The \$12 Million Stuffed Shark

## The Curious Economics of Contemporary Art

Don Thompson  
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### Recommendation

When it comes to contemporary art, many observers simply scratch their heads and mumble, “You call that art?” Intriguing, disturbing, exhilarating and obscene, contemporary art is hard to understand. In fact, when you consider pieces like the titular \$12 million stuffed shark by Damien Hirst, it is often downright baffling. If you’re looking for artistic explanations and interpretations, though, Don Thompson doesn’t offer much help. That’s not his particular domain. Thompson, an economics and marketing professor, zeroes in on the financial inner-workings of the art world (at least, the pre-2009 recession art world). Curious why certain pieces sell for millions, he delved into the peculiar personalities that inhabit this controversial genre. *BooksInShort* applauds his lively exploration of a fascinating topic that few economists would even ponder.

### Take-Aways

- Marketing and branding dictate contemporary art’s value – not the artist’s talent.
- Price matters most.
- Artists dislike the relationship between art and money.
- The works of Pablo Picasso and Andy Warhol are the most traded in the world.
- Art critics have little influence on prices or artists’ popularity.
- Damien Hirst and Jeff Koons are among the few artists with celebrity status.
- Auction giants Christie’s and Sotheby’s dominate their high-end market.
- Only one of 200 established artists will have work auctioned by those houses.
- As a general rule, art is not a good investment.
- Art fairs provide a viable commercial alternative for mainstream art dealers who struggle to compete against auction houses and superstar dealers.

### Summary

#### The Right Brand of Art

Few rules apply in contemporary art. From pieces like Andy Warhol’s *Soup Can with Peeling Label* to Jeff Koons’ display of a Hoover vacuum cleaner in a Plexiglas case – works that “recontextualize” ordinary objects – contemporary art is typically controversial, subjective, indefinable and immune to old standards as it pushes the boundaries of taste and sensibility.

“Artists today resent the market economy and the degree to which art works are acquired not just on merit, but because art has become an expression of status.”

Branding unquestionably governs the contemporary art market, influencing the monetary value of most pieces and the buying behavior of high-end art consumers. As expected in other fields, branding shapes purchasing. People buy a Mercedes because the brand connotes quality, value and status. The same principle applies to contemporary art. Christie’s and Sotheby’s, the world’s most prestigious auction houses, can command higher prices for the pieces they offer. Branded dealers, such as Jay Jopling in London and Larry Gagosian in New York, carry works that other galleries don’t have. Branded collectors provide immediate credibility to the artwork they buy.

“The value of one work of art compared to another is in no way related to the time or skill that went into producing it.”

Branding – not talent – is often all that separates an established artist from a new or “emerging” artist. Branding drives the prices of artwork into the millions and influences the buying decisions of ultra-rich, sometimes insecure patrons who may not be knowledgeable about art. The power of branding is particularly evident at evening auctions at Christie’s and Sotheby’s, where staffers project clients’ astounding bids on a large screen in yen, pounds, dollars, euros, rubles and more.

“You are nobody in contemporary art until you have been branded.”

The May 2007 auction at Sotheby’s produced \$255 million in sales, with 41 of the 65 pieces sold going for more than \$1 million each. The evening’s climax was the world-record, \$72.8 million sale of Mark Rothko’s 1950 abstract oil painting, *White Center (Yellow, Pink and Lavender on Rose)*. David Rockefeller had owned the seven-foot-tall piece since 1960, when he purchased it for \$8,500. Koons’ vacuum sold for \$2.16 million at the auction, while Jim Hodges’ *No-One Ever Leaves* – “a leather jacket tossed in a corner” and chained to the wall – sold for \$690,000. Despite such mind-boggling prices, contemporary art generally is a poor investment. Half of the artists Christie’s or Sotheby’s now feature in their evening shows probably won’t qualify for that level of attention a decade from now. Whether Koons’

vacuum or Hodges' leather jacket will go up in price is anyone's guess. With contemporary art, unpredictability is the only predictable factor.

## Let's Make a Deal

Branded dealers are the contemporary art world's power brokers. Savvy, glib and usually wealthy, these high-profile salespeople use their marketing expertise to cultivate relationships with collectors, promote their artists, and identify and capitalize on trends. Branded dealers guide and promote artists' careers by placing their work with collectors and in museums, and by skillfully deploying public relations and advertising.

"When an artist becomes branded, the market tends to accept as legitimate whatever the artist submits."

Well-known dealers, like Gagosian, cultivate such a high level of client trust that their patrons often buy works they haven't seen – based solely on the dealers' recommendations. Gagosian presold his London gallery's opening show in 2004 merely by sending "transparencies and computer images" to collectors. In January 2007, he provided select customers with a password that allowed them to view images from Tom Friedman's upcoming exhibition online. Without making a single phone call, Gagosian sold out the show in one day.

"Being branded means a museum must have in its collection the major artists of a particular era, rather than interesting but perhaps more obscure artists from the same period."

But superstar dealers represent only a tiny fraction of contemporary artists. Most new artists typically follow several arduous steps to try to gain recognition. After initially showing their work in small studios, artists hope that "mainstream" dealers will discover their work and arrange larger gallery shows. If that succeeds, galleries in other cities may exhibit the work and it could crop up in art publications. New artists who don't appear in mainstream galleries within two years of their debuts may never command high prices or achieve wide recognition.

"The starting point in setting a price for the work of a new artist is the dealer's reputation."

Branded and mainstream galleries are most prevalent in New York and London, the acknowledged capitals of contemporary art. While galleries do succeed in other cities, many artists work in New York and London to gain maximum exposure to influential galleries and wealthy collectors. Most contemporary artists struggle to make a living. Only some 400 of the 80,000 artists living in New York and London earn a significant income from their art.

## Artists as Celebrities

Britain's Damien Hirst is among a handful of current artists who've achieved extraordinary fame and fortune. A multimillionaire by the time he reached his 40s, Hirst made an immediate impression on the influential collector Charles Saatchi in 1990 with *A Thousand Years*, an installation of a rotting cow's head and a growing pile of dead flies. Saatchi purchased the exhibit, and agreed to fund future Hirst projects. The next year, Hirst created *The Physical Impossibility of Death in the Mind of Someone Living*, his infamous shark preserved in formaldehyde within a glass and steel case. Steve Cohen purchased the shark in 2005 and, later that year, Hirst agreed to replace the decaying animal with another tiger shark injected with a much stronger preservative, "224 gallons of formaldehyde." The Kunsthau Museum in Bregenz, Austria, displayed it and then Cohen lent it to New York's Metropolitan Museum of Art. Interestingly, in 2006, Hirst created a second shark piece as part of an exhibit in Mexico City. A museum in Seoul, South Korea, purchased it for \$4 million.

"Price records are created by divergent evaluations, together with the mixture of ego, competitiveness and greed in the auction room."

Hirst is also famous for displaying pharmaceutical items in medicine cabinets. The president of a Mexican vitamin company paid \$3 million for his display of acetaminophen pills. In 2007, a Hirst piece featuring "6,136 handcrafted pills mounted on razor blades" sold for \$19.1 million at Sotheby's in London, at the time "the highest price paid for a work by any living artist." Hirst also sells "spot and spin" paintings, which his assistants actually create. People consider the works valuable because of his brand name.

"Auctioneering is all about entertaining the 90% of the people in the auction room who have no intention of bidding, while eliciting bids from the lustful 10%." [ – Hugh Hildesley, Sotheby's auctioneer]

Andy Warhol is probably the most recognized name in contemporary art. His "Pop Art," including soup can paintings and silkscreen prints of celebrities such as Elvis Presley and Marilyn Monroe continue to sell for millions, though he died in 1987. Warhol, a unique personality with a distinctive white-haired look, started modeling and filming TV commercials in his 50s. Authors and filmmakers are still fascinated with Warhol.

"A sign of high status as an auction client is to bid without the plebeian necessity of possessing a bidding paddle."

Jeff Koons once worked on Wall Street and regards art as a "commodity to be promoted." He is known for attention-getting sculptures, such as his 43-foot-high, blossom-covered topiary puppy. Some 70,000 flowering plants covered the massive pup when it was displayed at the Guggenheim Museum Bilbao in Spain and in New York City's Rockefeller Center. Koons' 80-person staff produces most of his art, though he carefully supervises and guides the process.

## Auction Kings

Christie's and Sotheby's virtually monopolize high-end art auctions. In 2006, the auction giants accounted for 801 of the 810 works of all kinds of art worldwide that sold publicly for more than \$1 million. Their evening auctions draw capacity crowds and often require tickets. Two other auction houses, Phillips de Pury and Bonhams, compete for major works but they lack Christie's and Sotheby's brand recognition.

"Money itself has little meaning in the upper echelons of the art world – everyone has it. What impresses is ownership of a rare and treasured work."

Auction houses devote serious resources to glossy, full-color catalogues promoting upcoming exhibits. The photo quality is extraordinary and the written descriptions

are breathless and poetic. Staffers make changes up to the last minute and distribute catalogues three weeks before a sale. Sometimes, employees write the descriptions even before the house finalizes the consignment.

“In the overwhelming majority of cases, art is neither a good investment nor an efficient investment vehicle.”

Sellers and buyers both pay percentages to the auction houses, which transport and store consigned pieces, investigate their authenticity, photograph and publicize them, and deliver them to their purchasers. Most consigners trust the auction houses to perform their duties. Auction specialists are key players and confidants. They often advise high-end collectors who may not trust their own judgment and who want to feel confident that their friends will react favorably to their purchases. Ego is always a major consideration. In fact, a bidding war among two or three individuals typically boils down to winning the deal – not the artwork’s value.

“The greatest return comes from discovering the innovators, the ones who will help shape art for decades to come.”

Occasionally, consigners with valuable pieces insist on having a say in the entire auction process – from the selection of the auctioneer to the artwork’s catalogue description. In 1997, Christie’s wanted to handle 115 Impressionist and modern works owned by famed costume jeweler Victor Ganz and his wife, Sally. To secure the lot, the auction house agreed to purchase Ganz’s New York apartment (which it later resold at a big loss), and to hold dinners and receptions for promising bidders. Auction houses extend preferential treatment to very rich bidders, including transporting collections to foreign countries for private showings. One auction house flew a Picasso painting to Las Vegas so casino magnate Steve Wynn could “see how it looked” on his wall next to his other classic works. It sold, apparently to a Russian buyer, for \$95.2 million.

## Little Guys Try Harder

Prestigious auction houses have made life increasingly difficult for mainstream dealers who struggle to compete. Despite their adversarial positions, however, dealers and auction houses have a “symbiotic relationship.” Dealers provide auction houses with contemporary art consignments while obtaining surplus pieces from the houses. Although dealers benefit, they generally believe that auction houses do more harm than good by focusing only on sales figures and by catering to consigners instead of developing talent.

“Critics and curators may debate what a work means; most collectors just want to hang a work that touches their soul.”

Realizing that they’re outgunned and overmatched, patrons focus on prestigious international commercial art fairs. The four largest are The European Fine Art Foundation (TEFAF) Maastricht Art Fair in Holland, Switzerland’s Art Basel, Art Basel Miami Beach and London’s Frieze Art Fair. The fairs attract consignments that a major auction house could very well offer. Unfortunately for dealers, fairs require a considerable investment of time and money. Plus, fairs, which have bustling crowds and many entertaining distractions, are not ideal venues for viewing art. However, every collector hopes to stumble upon a gem or two from an unknown artist. By 2005, three years after its debut, Art Basel Miami Beach was the largest contemporary art fair. The five-day party in December, complete with celebrities and assorted excesses, attracts dealers from 30 nations plus superwealthy buyers, many of whom already winter in South Florida.

## The Price Is Right

Price equals value in contemporary art – even if logic dictates that a preserved shark shouldn’t command \$12 million. Collectors touring a museum are more likely to identify works by their worth instead of their artistic merit. People flock to see paintings and sculptures because of their price tags. Artists may dislike the link between art and money, but in lieu of government grants, subsidies or salaries for artists, the dealers, collectors and buyers dictate their cash flow.

To many dealers, profit seems to be a secondary factor. They appear more concerned that the prices they charge for their artists’ work enhance their galleries’ status and the reputations of the artists and the potential buyers. For this reason, they may be reluctant to discuss pricing. A mainstream gallery showing an oil painting by an emerging artist would charge about \$5,000 to \$11,000 for it. If the work sold, the dealer would ask more for the artist’s works at future exhibitions. Regardless of public response, dealers never reduce the prices of any artist’s pieces. That would send a negative message about demand for the work and it would violate the principle that prices must rise with each show. André Emmerich, founder of the Madison Avenue gallery in New York, would not assign a price to a work until it was hanging in his gallery beside comparable pieces.

History has shown that expensive art is a poor investment. For every piece that doubles or triples in value, hundreds never appreciate more than 10% over the decades. In fact, Sotheby’s and Christie’s accept only one in five contemporary pieces that collectors offer them. Even collectors like Saatchi have more losers than winners. The art world is fickle and subject to fluctuation. So, buy pieces because you like them, not because you hope that someday they will make you rich.

## About the Author

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