

# MARKETING TOOLS ON THE INTERNATIONAL ART MARKET

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**Abstract.** This article examines the peculiarities of marketing tools (such as product policy, pricing, distribution channels and promotion) application to the development of art markets on an international scale. The paper uncovers the new trends on the international art market that have an impact on art marketing. The analysis is based on data collected by Skate's Art Market Research and Artprice, using the interdisciplinary approach to the research. In this article the theoretical proposition about how to apply the 4P model of marketing mix to promote art and increase cultural attractiveness of countries are developed.

## 1. Introduction

The implementation of management and marketing concepts and principles to creative industries, such as fine arts, theatres, cinema, music etc., is notoriously difficult. The problem arises from the non-material nature of cultural assets and the specific consumption patterns on these markets caused by customers' aesthetical and irrational expectations and needs.

Nevertheless, art markets perform several important functions in national and global economy. First, according to S. Anholt, art is an important element of a country brand, together with governance, people, brands and products that come from the country, tourism, investment and immigration (Anholt, 2003) [1]. Therefore, promoting art can be used to increase tourist attractiveness and reputation of countries.

Secondly, cultural relations build cross-cultural communication networks in a globalized world through international cultural events. Thus, art markets can be used as important tools of globalization and integration. Thirdly, art markets play the role of alternative investment markets, especially during the global financial crisis, and help to save investors' money (Mei & Moses, 2002 [2]; Melnyk, 2009 [3]). In order to carry out all these functions, the art market needs special tools and elements of infrastructure that, in simple words, can be defined as marketing tools. Therefore, a number of questions arise from this: Can the traditional marketing tools be implemented on the art markets? What kind of international marketing mix should be used in art industries? What are the elements of the product mix on the art market? What is the pricing process on the art markets? What distribution channels are the most efficient? How to communicate with consumers to promote art internationally?

Thus, the research objective is to prove the following hypothesis: the traditional 4P model of marketing mix can be applied to the art market taking into account the peculiarities of art as an asset.

## 2. Theoretical background

Any research on international art markets has an interdisciplinary character and needs the application of several theories covering different fields of research: the general theory of marketing, investment theory, political economy, international economy, international marketing, the economy of art, cultural studies etc. This study relies on theoretical findings of J. McCarthy (McCarthy, 1960 [4]), who offered the 4P model of marketing mix, developed by P. Kotler and G. Armstrong (Kotler and Armstrong, 2011 [5]). The 4C model of B.Lauterborn (Lauterborn, 1990 [6]) cannot be applied to this study; it's more client-oriented, while the art market is product-oriented because of the artworks' rarity. The fundamentals of economics of art started with the research of W.Baumol and W.Bowen. This classic study provides an extensive analysis of the major economic attributes of arts: costs, income, organizational structure and remuneration of performers (Baumol&Bowen, 1968 [7]). J.Meis and M.Moses developed the findings of W.Sharpe in art investment considering artworks as alternative investment assets (Mei & Moses, 2002 [2]). New approaches and strategies of art investment and art valuation have been worked out by S.Skaterschikov (Skaterschikov, 2009 [8; 9]).

Previous studies have identified the relationship between art and investment, therefore largely ignored the understanding of artworks as goods on the international markets that need special marketing tools. That's why the theory of international art marketing needs further development.

### 3. The 4 P's of art market: product

The analysis of a product as an element of marketing mix needs, first of all, the definition of a term *product*. In terms of marketing, product is seen as an item that satisfies what a consumer needs or wants. It also means the goods-and-services combination the company offers to the target market (Kotler and Armstrong, 2011[5]). So, identifying an artwork as a product we have to define: a) what consumer's needs or wants are satisfied by art; b) what kind of services is connected with art assets; c) what's the consumer value of art assets.

The traditional components of a product seem to be quite different from those on markets of goods, but still can be divided into 3 main levels: core product, tangible product and augmented product.

A core product in product-mix is a core benefit or service that a customer receives while buying the product. As for the art industries, the core product is, first of all, an aesthetic pleasure of contemplating a work of art. Describing a core product in art, two main types of consumers must be taken into account: collectors and investors. For collectors, the main benefit is creating collections and enjoying the beauty of artworks, or "the joy of ownership" (Skatershchikov et al., 2006 [8]). For investors, the main benefit lies in earning speculative profit as a difference between a purchase price and a sales price of an art asset on the market. In this case their returns vary from 15% to 200% per annum.

An actual (or tangible) product is a physical product itself. On the art market it means an artwork with all its features and characteristics: title and author, period of creation, provenance, and state of preservation. On the art markets, the traditional meaning of brand is replaced by the name of a painter. In some countries and regions, for example Ukraine, the artist's name is the main factor of art pricing. Similarly to a list of top brands, artists are rated by art market research companies (Table 1).

Table 1. Top-10 artists by nominal value \*

Rank	Artist	Title	Sale date	Nominal value, USD
1	Edvard Munch	The Scream	02.05.2012	119,922,496
2	Pablo Picasso	Nude, Green Leaves and Bust	03.05.2010	106,482,496
3	Pablo Picasso	Garçon à la pipe	04.05.2004	104,168,000
4	Alberto Giacometti	L'homme qui marche I	02.02.2010	103,689,992
5	Pablo Picasso	Dora Maar au chat	02.05.2006	95,216,000
6	Gustav Klimt	Portrait of Adele Bloch-Bauer II	07.11.2006	87,936,000
7	Mark Rothko	Orange, Red, Yellow	08.05.2012	86,882,496
8	Francis Bacon	Triptych, 1976	13.05.2008	86,281,000
9	Vincent van Gogh	Portrait du Dr. Gachet	14.05.1990	82,500,000
10	Claude Monet	Le bassin aux nymphéas	23.06.2008	80,549,392

Source: Skate's Art Market Research

Note: Nominal value – auction price, converted to USD and including buyer's premium with no time value adjustment made.

An augmented product means additional non-tangible benefits that the customer receives while buying a product. Marketers often surround their actual products with goods and services that provide additional value to the customer's purchase. In case of art markets, collectors or investors need a number of specific services: restoration of artworks, art expertise, international delivery (after buying at foreign auction), and insurance of art assets' stealing risks.

Another issue in product policy is the analysis of consumer value of goods (artworks) that can be calculated with a simple formula (1):

$$\text{Consumer value of goods (artworks)} = \text{benefits} / \text{costs} (1)$$

It follows that the consumer value of art assets can be increased in two ways: augmenting the benefits or reducing costs (with the help of reducing transactional costs, e.g. auction fees, margins). The augmentation of benefits depends on the type of consumer. If he's an investor, he may increase the advantages of art assets by using efficient art investment strategies in order to get higher returns. For collectors, the benefits of artworks can be augmented by selling more than one item for collection. It is

well known that collections are more valuable than a sum of separate paintings. For both, value can also be added by providing additional services of an augmented product described above.

Finally, it has to be mentioned that traditional international product strategies (standardization and adaptation) cannot be applied to the art market – art assets created in different countries are unique and inimitable, their value lies in this uniqueness.

#### 4. Price: pricing the priceless

In marketing theory, *price* is defined as the amount the consumer must exchange to receive the offering (Solomon et al, 2009 [10]). Pricing on the international art market is one of the most difficult tasks. The main problem is that price is not based on costs. According to A. Smith, cultural assets are unique and have no substitutes, thus cannot be evaluated (Smith, 1976 [11]).

On the art markets, the evaluation of art assets is often based on art market databases (ArtSales, Art Market, Artprice, ArtTactic, ArtInvestment, Skate’s Art Market Research). In general, these databases are easy to use, but the reliability of data and practical usefulness of statistics decrease with increasing distance from the first hundred most expensive artists. This method of determining the fair value of a work of art is based on the calculation of average prices for earlier agreements and does not include many subjective, psychological factors and market trends. Therefore, the findings are approximate and contain a considerable error in calculating the price.

In recent years, some valuation models of art assets have been worked out. The most substantiated models are the Model for evaluating art assets, developed by Kunst Asset Management GmbH by the analogy to the Model for evaluating capital assets [12], and the International Standards for Valuation of cultural assets and objects of collecting, developed by M.Tamoikin and D.Tamoikin [13]. The comparative analysis of both models is given in Table 2.

Table 2. Comparison of the Model for evaluating art assets (by KunstAM) and the International standards for valuation of cultural assets and objects of collecting (by Tamoikin& Tamoikin)\*

Model for evaluating art assets	International Standards for Valuation of cultural assets and objects of collecting
<i>Pricing criteria</i>	
<ul style="list-style-type: none"> <li>- hammer price of artwork;</li> <li>- artist’s name and nationality;</li> <li>- liquidity and market share of artist’s works;</li> <li>- contextual value of artwork;</li> <li>- size of an artwork;</li> <li>- period of creation;</li> <li>- artist’s age during the creation of artwork;</li> <li>- the subject of artwork (still life, portrait, landscape, abstract painting)</li> </ul>	<ul style="list-style-type: none"> <li>I. Criteria reflecting the physical characteristics of the art asset</li> <li>II. Criteria that reflect the features of object’s restoration (if any)</li> <li>III. Criteria that reflect the non-physical characteristics of art asset (all together 24 criteria)</li> </ul>
<i>Formula</i>	
$P = (FV + IP) \times PF$	$EC = BC + (BC \times Y_1 - BC) + (BC \times Y_{\dots} - BC) + (BC \times Y_{24} - BC) + LC + SC$
where <i>P</i> – the estimated price of a work of art, <i>FV</i> – the fair value of an artwork, <i>IP</i> – irrational premium, <i>PF</i> – provenance factor	where <i>EC</i> - estimated cost of a work of art, <i>BC</i> - basic cost of the work, <i>Y<sub>1...24</sub></i> - selected coefficients of art experts with 24 criteria; <i>LC</i> - the cost of legalization of artwork; <i>SC</i> - the cost of the artwork storage
<i>Disadvantages</i>	
The model covers works of art worth at least \$1 million, thus focuses only on the largest investors. The model covers only painting and do not take into account other fine arts	The model is still not put into practice, it’s just a blueprint

Note: *PF* (provenance factor) in this model is a coefficient that reflects the ability to track market authenticity and history of painting and assess the risk of fraud. *IP* (irrational premium) reflects the emotional features of pricing on this market.

Apparently, both models can be applied to art marketing, therefore the Standard of M.Tamoikin and D.Tamoikin seems to be more reasonable as it covers more pricing factors and can be used for any work of art and any investor.

## **5. Placement: new art intermediaries**

In general, *place* includes company activities that make the product available to target consumers (Kotler and Armstrong, 2011 [5]). On the art market, placement can be defined as a number of intermediaries and infrastructure institutions helping to deliver artworks to consumers. The main distribution channels of the art market consist of painters, art dealers, auction houses, art fairs, art galleries, and consumers of art. In international art marketing, the newest trends are connected with distribution channels. First of them is the transnationalization of art institutions such as largest auction houses. Recently the affiliates of Sotheby's and Christies have been established in China and United Arab Emirates. That means the growing importance of Chinese and Arabian consumers on the international art markets. Another trend is the art market "migration" to online and mobile platforms (Skate's Art Investment Report 2011 [14]). The main art industry e-Commerce leaders rated in 2011 by Skate's Art were eBay.com, liveauctioneers.com, artnet.com, christies.com, ha.com (Heritage Auctions), artprice.com, sothebys.com, artifact.com, saatchionline.com and bonhams.com.

A new phenomenon on the international art market is the opening of art exchanges selling shares in art assets thus making artworks available to any investor. Nowadays there are already 2 art exchanges in Europe (Art Exchange Paris in France and Split Art in Luxembourg) and 6 art exchanges in China (Tianjin Cultural Artwork Exchange, Zhengzhou Cultural Art Exchange, Shenzhen Culture Assets and Equity Exchange, Chengdu Culture Equity Exchange, Shanghai Culture Assets and Equity Exchange, South Cultural Equity Exchange) [15].

On international art market the traditional 3C concept of choosing a distribution channel doesn't work. The main criteria on it are transactional costs (auction houses commission, art dealers' margins) that consumers and other agents want to reduce and the access to rare and unique artworks.

All mentioned trends mean that the traditional distribution system on the art market is being reformed to meet new consumption patterns.

## **6. Promotion: PaRt, social media and sponsorship**

*Promotion* includes all of the activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products (Solomon et al, 2009). In art business, the more painter or artwork is known, the more it costs, that is proven by provenance factor in KunstAM model of valuating art assets. It follows that any communication with actual or potential customers is favourable. The international art market has developed the whole range of specific promotional tools: public relations (PaRt), exhibitions, art fairs, biennale, personal sales (by art dealers), guidebooks and catalogues publications. S.Skaterschikov et al. predicted further development of all these promotional strategies, especially the strategy of "art producing" and sponsorship, and the integration of art promotion and show-business (Skaterschikov et al., 2006 [8]).

Transnational banks and corporations make a big contribution to art promotion through establishing art funds and sponsoring art fairs, exhibitions and biennale. Similarly to art distribution, new social media and online platforms have covered the segment of art promotion.

Summarizing, we can design a theoretical model of the art marketing mix (Figure 1).

## **7. Conclusions**

This study provides a useful complement to existing theoretical understandings of art as an asset and a sort of good on international market. In international art marketing, the global approach has to be used, as art cannot be adapted to foreign markets and its cultural differences and uniqueness create the highest value. The model described in this paper can be used by the agents of art market (galleries, auction houses, art dealers) to promote works of art and collections internationally. It can also be applied by

governments and local authorities within the framework of country branding to increase the cultural attractiveness of their countries and regions.

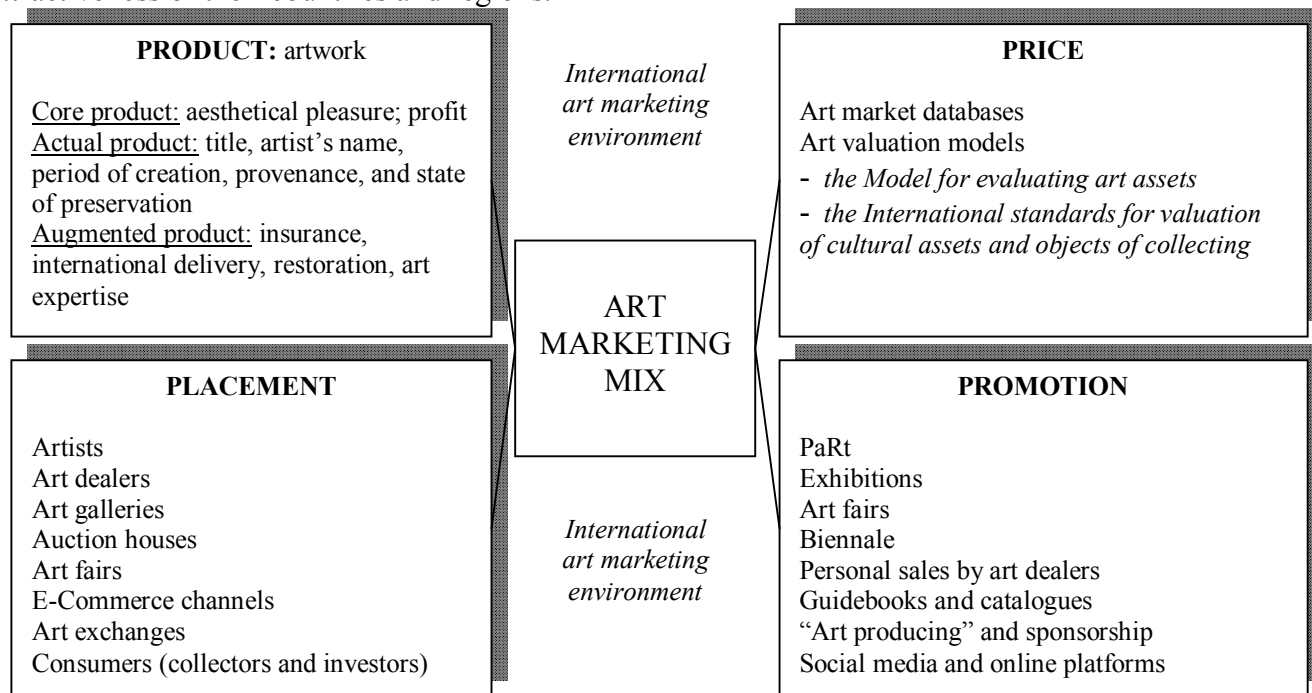


Figure 1. The International art marketing mix

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