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Weighing the Pros and Cons of the Sotheby's eBay Partnership

Eileen Kinsella, Wednesday, July 23, 2014

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Sotheby's and eBay released this graphic to illustrate how their businesses complement each other. Image: Sotheby's; eBay

We've all read that amid the increasingly crowded field of online art sellers, many with lofty ambitions, Sotheby's and eBay have again [teamed up and jumped into the fray](#).

Under the arrangement announced July 14, eBay will allow access to Sotheby's live auctions in New York starting later this year or early next year. The exception will be evening sales and culturally sensitive auctions. Themed and timed auctions are not on the current online-sharing agenda, but the idea will eventually be explored further, Sotheby's COO Bruno Vinciguerra said in an interview with artnet News. "We aim to incorporate our international live auctions of art, antiques, and collectibles in 2015–16," he added.

While there is no doubt that buyers have become more and more comfortable making major high-ticket purchases of luxury goods like watches, wine, and even artworks online, determining how prevalent, and perhaps more important, how profitable, related businesses can become remains to be seen. There are already more than a half dozen entities operating in this space, including artnet Auctions, which is the oldest and the largest single online seller of art. Many others new to the space have received millions in venture capital funding, indicating that investors are banking on decent returns. So far no online art sales start-up has posted profits.

According to a report about the online art market [released recently by Hiscox and ArtTactic](#), Paddle8, which focuses primarily on charity auctions, surpassed \$50 million in "bidding activity" in 2013, as compared with \$9.8 million in 2012. But the \$50 million figure is deceptive, even misleading, as bidding activity does not necessarily equate to sales. Further, around 85% of this total came from "hosting" charity benefit sales which are not strictly online sales (usually incorporating some combination of timed online access and off-line bidding in the room at the event) and not subject to the same kind of fees or revenue. Bidders at the charity events are also forced to sign up to Paddle 8 in order to bid on the works in the auction. Though the company does not release the breakdown between benefit and for-profit auctions, a spokesperson said the fee structure for benefit auctions is generally six percent of the auction total.

Sotheby's main rival, Christie's, has made significant strides in hosting online sales: its 2013 online-only sales generated \$20.8 million, a dramatic jump from just \$4.7 million in 2012 according to the report. In 2013 they ran 49 online-only sales compared to just seven in 2012. However, if numbers are broken down per sale, the gain appears less significant. In 2012, Christies made an average of \$671,429 per online auction, a figure that fell to \$424,490 in 2013.

E-commerce is "significantly larger today than it was 12 years ago in 2002," notes Vinciguerra, referring to the earlier, short-lived Sotheby's eBay venture. He also cited other noteworthy differences between the previous venture and the current partnership: "In our first partnership, we created a dealer network to source the property. That was an extra layer to manage that we avoided this time. Basically, we simplified this model so it is Sotheby's experts sourcing and authenticating property and presenting it at auction in New York as we always do. eBay then makes these sales available to millions of its buyers. In 2002, not only did we build a dedicated network of dealers but we also built a dedicated business organization with marketers—back office—and we developed our own technology, which involved hundreds of people and millions of dollars. Now we will leverage our current sourcing, content, and expertise and will rely on eBay in terms of broadening our reach, marketing online to millions of people, and developing state-of-the-art technology across the increasingly diverse number of platforms—devices—that people are using."

Vinciguerra said that Sotheby's now has "much greater experience in selling online, having successfully grown this business on our own for a few years now." Sotheby's said the number of lots sold online was up 36 percent last year and the house fielded online bidding activity on 17 percent of all lots offered.

Asked what he views as the main challenges or risks, Vinciguerra said success will depend on "the quality of execution and presentation and on innovation. Both companies are fully committed to bringing their respective skills and expertise to build the optimal experience for our clients. The implementation work has started and will be thorough over the

coming months pre-launch. We will continue to iterate and experiment with our approach on the platform in the first 12 months and expect to learn a great deal more about our new online audience."

Concerns about buyer non-payment and other security risks such as identity theft, or other fraud, are an issue, but apparently not a priority for Sotheby's. "eBay is at the forefront of developing secured transactions," Vinciguerra said. "We will benefit from their know-how. Moreover all transactors, initially, will directly execute their transactions with Sotheby's and will go through the same processes we have put in place for our own BIDnow, which have proved effective to date. We will also leverage eBay's extensive database of bidder/buyer behavior and payment history."



Shares of Sotheby's dropped following the announcement of the new venture with eBay on July 14. Source: Yahoo Finance

Sotheby's stock fell to under \$38 a share, from \$40, in the days following the announcement on July 14. Shares rebounded on Friday, July 18 after news emerged that Sotheby's [had laid off staff](#) amid restructuring of some departments. Shares are currently trading at around \$40. Sotheby's did not specify how many people were laid off. A spokesman said there is no

connection between the new eBay joint venture and staff reductions.

The latest leap into the virtual realm is certainly not without its share of skeptics and will be closely watched by collectors and competitors alike.

Jason Nielsen, senior vice president of operations for Omaha, Nebraska-based online auction site Proxibid, said Sotheby's will need to be extremely vigilant where security is concerned. "The world of high-end fine art is changing rapidly, with online sales increasing and coming from all corners of the globe," he told artnet News. "The concern comes with the lack of knowledge in the area of Risk Management in the fine art space. Most platforms are dealing with low-dollar items, and a non-paying bidder is less of a concern," he said.

Nielsen, an expert in online safety and risk management, previously served as vice president of North American operations at PayPal, eBay's payments division and has served as a private consultant for such companies as Facebook. "Most platforms that deal in high-end items now put several unfriendly hoops in front of a buyer in the hopes that they will keep the wrong people out of the auction, which results in deterring many good buyers as well. Managing risk is something that should be done in real-time to provide buyers with a seamless but secure experience."