How Big Data is set to change the art market

Sophisticated data tools aim to improve knowledge and boost confidence

by SARAH P. HANSON | 8 December 2016

Big data analytics is becoming increasingly important in the art market

In late October, Sotheby's announced it had acquired the Mei Moses Art Indices, a database of repeat auction sales that tracks value over time; shortly after, Artnet said it had brought Tutela Capital, an analytics firm headed by Fabian Bocart, into its portfolio, which also includes a sizeable database of auction prices. Each company has

different aims, but one thing is clear: data will play a key role in how they—and the art market—move forward.

Modernising operations

In a 7 November call for investors, Sotheby's chief executive Tad Smith described the acquisition (for a sum "immaterial" to the company's financials) as just one of a number of initiatives to revamp the way the company leverages the information at its disposal. "We have developed an extensive customer relationship management programme to take new buyers and make more offers to them," he said. "If you underbid for a particular painting in an auction and you don't get it, I would like for you to have an opportunity to buy something very similar within 24 hours, something that is based on a relational database… that's the kind of plumbing we're developing now."

The Mei Moses indices, in particular, he said, should reassure investors and offer sellers specific data points to build confidence that their picture will do well. Not only that, says Sotheby's chief financial officer Mike Goss, the indices will also be useful for "setting expectations for consignors" and for the house's advisory business.

One criticism of the Mei Moses indices—which were developed by Michael Moses and Jianping Mei and examine 45,000 repeat sales in seven categories and one global one using data from auction houses—is that the number of works that repeatedly come up for auction is too small to reliably extrapolate to the broader market. Goss acknowledges this shortcoming but says, "People like the fact that you're tracking the same work through time. You can always look at [other] data that's more widely available, which we believe are directionally correct. It's a trade-off. We'll look at both."

The big picture

Evan Beard, the head of the art services division of investment managers US Trust, applauded Sotheby's move, and says indices such as Mei Moses can help his private-bank clients "understand how art fits within the overall context of their financial life. Historically that's been very difficult, because data has been difficult to come by."

That was one gap Artnet aimed to fill when it revolutionised the field in 1989 with the first online price database, which now has more than 10 million records. By acquiring Tutela, the company appears to be pushing further into analysis and modelling applications. Artnet's chief executive Jacob Pabst said in a statement, "It opens the door to a whole new world of development possibilities" in indices, valuations, and smart algorithms.

All this quantification could spur confidence. Some economists believe the art market is held back by a lack of available, objective information. Those in the know may share a kind of "collective knowledge" about the state of the market, but with data, Bocart says, "we will be better able to quantify at a more granular level what is going on", as well as "break the barriers of insider knowledge to allow more people to enter the market".

Using data to define risk

Not only might new collectors be encouraged to enter, so would investors. "Everyone talks about art as an asset class," Beard says. "But art actually does not live up very well to the requirements of an asset class." If value—and therefore risk—were easier to pinpoint, banks and hedge funds might move beyond leveraging art to securitising it. One of Tutela's key offerings is valuation of art for financial applications that complies with the IFRS 13 standard.

Sotheby's Mei Moses and Artnet, however, both rely solely on auction data, and, as Beard points out, auction sales represent only a portion of the market. "We'll really have something," he says, "if someone cracks the code on how you aggregate data in the private market, and how you incentivise private dealers and gallerists to disclose it."