

"The bloom is off the rose among investors for online art sites," says David Kusin, founder of Kusin & Company in Dallas, an economic research firm that analyzes Internet start-ups to advise governments, banks and financial groups on whether to invest in them. Kusin's specialty is the art market, and he has reviewed 80 art sites—which he declines to identify—over the past two years. He has recommended none of them to his clients.

"I've seen business plans that don't separate fine arts from decorative arts, where the founders don't know the size of their own market and don't know who they're targeting as buyers. The venture capitalists funded them because they didn't know either," Kusin says. "Early on, investors were enamored with art sites. I've seen otherwise very smart VCs toss aside their standard list of questions when it's come to funding art-related Internet companies. But now standards are getting more rigorous."

Dan Levitan, a managing partner of Maveron, a Seattle-based venture capital firm that provided early funding for eBay, also sees a shrinking playing field. "The online art market proved not as big as the capital allocated to it," he says. "In the next year, we're going to see a radical realignment as some art dot-coms merge, others are purged, while the survivors surge."

SOTHEBYS.COM TAKES ON EBAY

Not every art dot-com, of course, is destined to become road-kill on the Information Highway. Two that will almost certainly survive the anticipated shakeout are Sothebys.com and eBay, if only by virtue of their size and the diversity of their operations. But the two sites represent very different models, to say the least, for how to sell art online. While Sotheby's is refining its system of quality and authenticity control, eBay stands by its well-known hands-off, non-

"Without them, the site's supply could dry up."

So are the dealers delivering? Craig Moffett, president of Sothebys.com, reports that 1,000 of the 5,000 contracted dealers have placed artwork on Sothebys.com, providing 70 percent of the site's material. The other 30 percent, he says, comes from Sotheby's itself.

Sotheby's declines to reveal crucial site statistics, such as number of registered users or percent of lots sold, but the firm does release its sales figures. At press time on July 10, Sothebys.com had sold over 10,000 objects for a total of more than \$25 million (a figure boosted by the \$8.1 million sale of the *Declaration of Independence* on June 29).

The question is whether these sales, from which Sotheby's skims a 10 percent buyer's premium, can even begin to offset the initial business development costs, reported to be upward of \$20 million in 1999 alone. Wall Street is evidently not convinced. Sotheby's stock price soared past \$45 in January 1999 on the strength of its plans for the Internet. But by January of this year, near the time of the site launch and just before the company's reputation was hit by the federal antitrust investigation, Sotheby's stock was dropping into the mid \$20s (see "Stock Watch," page 78).

Meanwhile, eBay, an early favorite of Wall Street, has proved that it can attract the buyers and sellers to perform a volume business selling all kinds of goods. In fact, eBay's gross sales for 1999 (\$2.8 billion) were greater than either Christie's (\$2.25 billion) or Sotheby's (\$2.3 billion). Recent figures are also strong. According to eBay spokesperson Kevin Pursglove, in the first quarter of 2000 alone, eBay realized \$1.2 billion in gross sales, netting \$6.3 million. (For a snapshot look at results on eBay's and Sotheby's sites, see "A Day on the Site," page 77.)

While eBay declines to report its total number of sales or break down these sales by category, it is clear that a signif-

icant chunk of trading on the site involves art and antiques—not to mention eBay's huge zoo of collectibles. It is also clear that the sales are taking place at the low-end of the market, in the \$10 to \$1,000 range, with material ranging wildly from treacly Thomas Kinkadee landscapes to vintage Eames chairs. "People can buy or sell artwork directly through eBay and avoid the steep premiums of traditional art-market channels and art dot-coms," May explains. "Although, without an established dealer or auction house to help sellers reach

qualified buyers, prices may not go quite as high."

Then there's the issue of authenticity, a mine field that threatens eBay's laissez-faire model of business. A leading Santa Fe dealer relates that nearly 90 percent of the Native American material he sees on eBay is misattributed or fake. There are also many alleged fakes of modern and contemporary art, including the much-discussed sale of a purported Richard Diebenkorn painting for \$135,805 in May. Ebay invalidated the sale after learning that the seller was guilty of shill bidding, or manipulating the bidding in his own auction. What's more, in April, a group of people who allegedly bought fake sports memorabilia on eBay

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involvement policy. What remains to be seen is which model is more effective—and profitable—in selling art online.

Kusin predicts that Sothebys.com "will eventually succeed, if nothing else than as a way to train another generation of buyers to buy art at Sotheby's brick-and-mortar auctions."

Mike May, senior analyst of e-commerce at Jupiter Communications in New York, is more bullish than Kusin. He names as strengths Sotheby's brand name and its network of over 5,000 art and antiques dealers who sell on the site. "Sothebys.com has locked up a great source of supply, which gives dealers a way of selling material to collectors they might not have reached in the past," May says.