

and a five percent seller's commission.

For its part, Guild operates at the lower end of the market, offering art, decorative arts and crafts from 1,600 artists, who range from glass master Dale Chihuly to contemporary painter Hunt Slonem. "On average," remarks CEO Toni Sikes, "our customers spend about \$200 to \$1,500 on their first art purchase on our site. And they come back: We have 17,000 registered users, with a 30 percent return rate." Seller's commissions vary from 35 percent (for artists who sell directly) to 15 percent (for galleries).

Sikes had some of the same advantages as Wolf: an existing business and a readymade client list. She founded Guild in New York in 1985 to publish artist sourcebooks that were distributed to interior designers and architects. In 1990, she moved the company to Madison, "where costs are so much lower," and expanded her publishing line into primarily coffee-table books about "fine craft." In 1998, she secured \$800,000 to start Guild.com, which became the core of the business.

"What differentiates us from our competitors is our historical business," says Sikes. "It takes years to develop a brand name, but we had already created one from our history as a publishing company. Designers and architects knew us and liked us."

Investors apparently liked Guild as well: The firm received early funds of \$3.5 million from Benchmark Capital in the spring of 1999. By the end of that summer, in its first major institutional round, Guild received another \$25 million from a group that included Benchmark Capital, Bowman Capital, Palo Alto's Technology Crossover Ventures (TCV) and London's ePartners, which is Rupert Murdoch's Internet fund. This summer, inside sources report, Benchmark and TCV are investing another \$8 million.

DANGERS ON THE VC TRAIL

If Circline and Guild have benefited from investor enthusiasm for b-to-b models, the art Web sites designed for individual consumers have had a tougher time. "They're more challenging because of the infrequency with which most users purchase artwork," notes Kusin. "I haven't seen a b-to-c art proposal in a month. There's a definite chill among investors when it comes to these kind of sites. The venture capitalists are off into something else these days."

All of this spells potential trouble for New York-based Onview.com and eArtGroup.com, two b-to-c sites involved in a fierce competition that most likely will leave only one standing. "We sell to about one-third dealers and designers, one-third collectors and one-third first time buyers," says Onview CEO Stephen Ketchum, and eArtGroup has a similar profile. Not only are both sites competing for the same buyers, but they are competing for material from leading modern and contemporary art dealers, such as Achim Moeller and Mary Boone (eArtGroup), Matthew Marks and Marlborough Fine Art (Onview). They both tend to sell mid-priced work, say \$5,000 to \$20,000, from high-end dealers.

In the end, the biggest difference between the sites may be who has the deeper pockets. According to Ketchum, a former managing director for New York investment bank Donaldson, Lufkin & Jenrette, he is Onview's primary investor among a

group of eight. "For the first nine months of the company, 95 percent of the funding came from me," he says, adding that he has put a total of nearly \$1 million of his own money into the firm.

In November, 1999, the company raised \$3.5 million from a group of unidentified institutional and individual investors. The company is now entering its third round of funding. "We're funded well into next year," Ketchum says. "And if need be, I can fund the company myself."

According to CEO Steve Lapper, eArtGroup is funded by a number of individual investors and one small venture-capital firm, New York's Archery Capital, which has invested some \$2.4 million. "We've finished our first and second rounds of funding," Lapper says, declining to disclose figures. And he is quick to discount the importance of funding when it comes to his site. EartGroup, he says, has been burning through its cash at a slower rate than his competitors, and has fewer employees: 13.

You can't expect to succeed just by digitizing something and putting it on the Internet, hoping some fool will buy it."

—MICHAEL WOLF, FOUNDER OF EWOLFS

But Lapper admits to approaching his rival, Ketchum, in June with an offer to sell eArtGroup to Onview. On previous occasions, Lapper had attempted to initiate merger talks with Ketchum, to no avail—an account that both men confirm.

Another possible buyer is Circline. Mast confirms that his firm and eArtGroup are "currently holding discussions." Does this mean the end of eArtGroup? "No way," argues Lapper. "Pursuing talks with potential buyers is a part of the development of Internet business."

Lapper also rejects the notion that there is a fundamental flaw with the b-to-c business model for an art site. "The Internet will reach new art buyers," he comments. "It will happen, but it's a process of evolution. It will take time for the Web to change the buying habits of the art world."

Others stress that it will take the involvement of traditional auction house specialists and dealers to bring about this change. "There are new buyers out there, but they need education and grooming from interacting in person with dealers and auction house people," Kusin notes. "New buyers need the human touch."

This kind of talk is a far cry from the revolutionary rhetoric favored by Internet advocates a year ago, many of whom predicted that e-commerce would double or even triple the size of the art market within five years' time. The dot-com evangelists are now watching their vision of the universe shrink. Instead of converting casual Web surfers into art collectors, the Internet has proved most effective as an informational and marketing tool, especially in the hands of brick-and-mortar businesses. In this way, the heart of the art market has remained stubbornly resistant to the yahoos and amazons of the Internet revolution.

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