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The artist–art dealer relationship as a marketing channel ☆

Roberto Cellini *, Tiziana Cuccia

University of Catania, Department of Economics and Business, Corso Italia, 55, 95129 Catania, Italy

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ABSTRACT

This article studies the relationship between the artist and the art dealer, interpreted as being the two members of a "marketing channel", as defined by industrial organization and marketing science literature. The result for both parties depends on the individual effort that each of them puts in; uncoordinated effort levels are shown to result in an inefficient outcome. Efficiency, subject to different institutional settings and agreements, is studied here with specific reference to the visual arts. The results may easily apply to the stage of creation of a number of different artistic goods. Possible ways to reach efficient outcomes in marketing channels in artistic fields are suggested and discussed.

1. Introduction

In economics and marketing science literature, a *marketing channel* denotes the set of subjects, practices, and activities that are associated with the transference of goods from the point of production to the point of consumption. In the simplest case, a particular product made by a manufacturer is delivered to a retailer who sells it in the final market. The manufacturer and retailer are the two members of the same marketing channel. If they act in an uncoordinated manner, channel inefficiencies arise – in the sense that the outcomes of the channel members will be lower than they might be if coordinated. Available literature suggests different ways of overcoming inefficiency, through using the tools of industrial organization and marketing practice.

Here, we shall study the relationship between the artist and the art dealer, interpreting them as being the two members of a marketing channel. Our main reference example will be a painter and an art gallery manager, as they represent a very simple and immediate case of a two-member marketing channel. What we show; however, can be easily extended to the stage of creation of different artistic goods, such as the creation of editorial or musical products. For instance, a writer and a publisher, or a singer and their event organizer, or a musician and the disco-producer may represent different specific examples of marketing channels in artistic fields. Such cases of marketing channels in the arts share some features with cases of manufacturing and retailing industrial production: with the success of artistic production depending on the artistic effort of the "creator" (the manufacturer), as well as on the promotional efforts made by the retailer, be it the art dealer, the event organizer, or the publisher, on the other hand. Usually, the behavior of each member of the marketing channel affects final sales, and, hence, the outcome for each of them.

Analyses by industrial organization and marketing practice indicate the outcome of different institutional arrangements between channel members and suggest specific arrangements to improve results within the channel. In the real world, in the manufacturing or service sectors, a variety of cases can be observed: with marketing channel members taking their decisions either simultaneously or sequentially; and, in the latter case, by taking the role of either leader or follower. The channel member who

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* Corresponding author. Tel.: +39 09 5753 7728; fax: +39 09 5753 7510.
E-mail addresses: cellini@unict.it (R. Cellini), cucciati@unict.it (T. Cuccia).

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plays the role of leader (that is, the first-mover) may commit themselves to incentive schemes to lead the follower toward specific actions. In some cases, a particular objective function can be the true goal of the channel members, with sometimes altruistic behavior being possible, with a particular channel member aiming at maximizing joint result rather than his/her individual profit.

Simultaneously, artistic production has idiosyncrasies with regard to industrial production and other service activities. For instance, the production of arts provides the artist with utility per se, with artists obtaining satisfaction from their own fame or notoriety, apart from any economic benefit. Even the behavior of art dealers can sometimes be characterized as *art for art's sake*. Furthermore, competition in the arts market takes place under particular forms, and the role of price competition or quantity competition needs to be specified when compared with "standard industrial goods." More importantly, peculiar arrangements are observed between the producer and retailer in artistic fields. Perhaps the most prominent example, in our time, is that *sales sharing* is the rule rather than *profit sharing*, as documented by a large body of evidence pertaining to different artistic fields (e.g., Caves, 2000, Chapters 2 and 3, or Velthuis, 2011a, 2011b). Again, mechanism designs that are typical of industrial goods, such as quantity discounting schemes, might be inappropriate in the field of arts, and they are rarely observed – at least in recent times. Moreover, cases of vertical integration between artist and art dealer are very difficult and rare.

We provide a simple formal model, consistent with the particularities in the arts, but inspired by industrial organization and marketing science literature, to study the relationship between the artist and the art dealer, who are interpreted as the members of a marketing channel. In several artistic channels, dealers typically complain about the limited effort of artists, and artists typically complain about the effort that dealers make. Our present study aims at evaluating whether such complaints are based on sound reasoning. In fact, our model shows that marketing channel inefficiency is also a feature of the arts. We study the efficiency of different arrangements, commonly observed in the world of arts, and propose simple mechanisms to overcome marketing channel inefficiency.

We can say that the contribution of the present article consists of applying a model that is well known in industrial organization and marketing science to the analysis of the artistic production. The consideration of relevant characteristics of the artistic production enables us to focus on specific solutions to the inefficiency that is associated with the marketing-channel nature of the supply side. Our results are fully consistent with the results provided by other articles that are focused on industrial production. However, the specific mechanisms that we propose here to overcome the inefficiency are particularly appropriate for the specific nature of the artistic goods.

In order to focus on the marketing channel inefficiency, generated by the strategic interdependence between the artist and the dealer, we do not take into account some relevant characteristics of the real world of the arts, such as the multiplicity of artists competing for a dealer or the multiplicity of dealers and possibly, their different goals (Santagata, 1995). We also overlook the matching aspects of the artist–art dealer relationships. Again, we do not consider the cases of channels where more than two members are involved. In some artistic fields, complex marketing channels are the rule: let us think, for instance, of the phases of the reproduction and distributions of goods, in cases such as the editorial sector, the disco industries, or movie production. The consideration of such aspects is left to future developments of the basic model that we are going to present here. Nevertheless, we hold that the conclusions of our simple model may be fruitful, under both the perspective of the description of observed actions and from the normative point of view.

The structure of the article is as follows. Section 2 offers a short literature review of studies on the marketing channel in the industrial sector, on the one hand, and lists the content of some studies in cultural economics on the other hand, both of which may suggest that the relationship between artist and art dealer can also be interpreted as a marketing channel. Section 3 presents the basic elements of our theoretical model. Section 4 presents equilibrium outcomes of the interactions between artist and art dealer, with individual optimal choices being shown to result in inefficient outcomes. Section 5 studies how to reach an efficient outcome. Comments and concluding remarks are presented in Section 6.

2. Insights from different research lines

In this article, we bring together different research lines. On the one hand, we consider the marketing channel literature, developed by both marketing and economic literature. Jeuland and Shugan (1983) can be considered the seminal model, even if several previous contributions containing similar ideas could be mentioned (e.g., Bucklin, 1966; or Spengler, 1950 in a bilateral monopoly context). The models within this research line consider the relationship between a manufacturer of a specific brand and a retailer. In the simplest version, only one manufacturer interacts with one retailer. A market demand function is assumed, depending on the retail price, set by the retailer, and other characteristics of the good related to choices and effort made by the manufacturer. Advertising can play some role. Thus, the choices of both manufacturer and retailer affect the outcome of both. Early models focus on pricing problems (Jeuland and Shugan, 1983, Moorthy, 1987); specific attention is paid to the double marginalization problem in standard bilateral monopoly (see the review of Ingene and Parry, 2004, Chapter 2, and the recent contributions of Dukes and Liu, 2010, and Goering, 2012). Other contributions underline the importance of non-price aspects in the relationship between the channel members (e.g., Bergen and John, 1997). In a strategic interdependence framework, the absence of coordination between the channel members leads to inefficiency, due to opportunistic behaviors and, more specifically, free riding. Coordination may hardly emerge endogenously, because the best reply of each channel member to the cooperative choice of the counterpart is not the cooperative choice: a typical prisoner dilemma occurs. It is true that, in the presence of repeated transactions, cooperation could emerge tacitly, along the lines of the Folk–Theorem story, but the real world documents that explicit contracts are often signed, introducing explicit mechanisms which clearly aim at