

# Balancing Exclusivity and Financial Pressures: Challenges Faced by Commercial Galleries in Today's Evolving Art Market

Yueling Hung \*

Arts Management in Goldsmiths, University of London, London, United Kingdom

\* Corresponding Author Email: yhung003@campus.goldsmiths.ac.uk

**Abstract.** This paper explores the challenges commercial galleries face in the rapidly transforming art market, examining the impacts of digitalization, globalization, rising operational costs, economic fluctuations, and the difficulty in attracting new collectors. As vital players in the art ecosystem, galleries have had to navigate shifting consumer behaviours, financial pressures, and intensified competition. Using statistics from The Art Basel and UBS reports, gallery business reports, and insights from industry professionals, this paper highlights changes in recent trends in market performance and captures galleries' underlying dilemma of balancing between exclusivity and expansion. The research reveals that many galleries have implemented innovative strategies, such as increasing their online presence, diversifying revenue streams, and forming strategic partnerships to remain competitive. These demonstrate commercial galleries' efforts to stay relevant in an increasingly digital and globalized market, while also addressing the financial pressures caused by rising operational costs and external economic uncertainty. The article categorizes the main pressures galleries face into several areas: adapting to technological advances, managing operational expenses, coping with broader socioeconomic changes, and reaching new collectors. This paper concludes by evaluating the effectiveness of galleries' strategic responses to these challenges, showing how they have evolved to maintain profitability and relevance. It offers insights into the strategies galleries have employed to navigate a complex and competitive landscape.

**Keywords:** Art market, commercial galleries, digital transformation, art fairs, collectors.

## 1. Introduction

The unregulated art market is a holistic ecosystem where sectors such as artists, commercial galleries, auction houses, art fairs, dealers, museums, and collectors are intricately intertwined and interconnected. These relationships, although competitive, are also symbiotically sophisticated in navigating broader financial, social, and political changes. This study centers on the role of commercial galleries within this dynamic landscape, highlighting their influence as gatekeepers who support emerging talent and elevate the status of established artists. By utilizing diverse physical and digital spaces, including art fairs, galleries serve as a bridge, linking artists to potential buyers. Traditionally, commercial galleries operate within the primary market, generating revenue through sales of artworks that directly connect collectors and the public to the artist's new creations. Galleries that represent artists often seek a balance between promoting artistic vision and achieving commercial success [1].

In the constantly changing art world, these business models and positions also highlight the vulnerabilities of commercial galleries as a result of significant changes like the shift to digital platforms, globalization, rising costs, broader market economic fluctuations, and the difficulty of luring new collectors. This essay will look at how commercial galleries are impacted by these factors: globalisation, digital revolution, logistical difficulties, economic downturns, and the lack of new collectors. The study is primarily structured around an exploration of the specific challenges arising from these changes and analyzes how galleries have responded and adapted to maintain operations. Using a literature analysis method, this study incorporates market reports and professionals' insights to understand the most current and relevant challenges shared by this sector. Additionally, it will consider how these challenges have propelled galleries to seek new resolutions and collaborations.

Ultimately, the goal of this research is to evaluate the strategies commercial galleries have employed to remain sustainable in the current and future markets. To achieve this, the study will

detail the challenges they face and explore the innovative resolutions and collaborations they have undertaken in response.

## 2. Digital Transformation

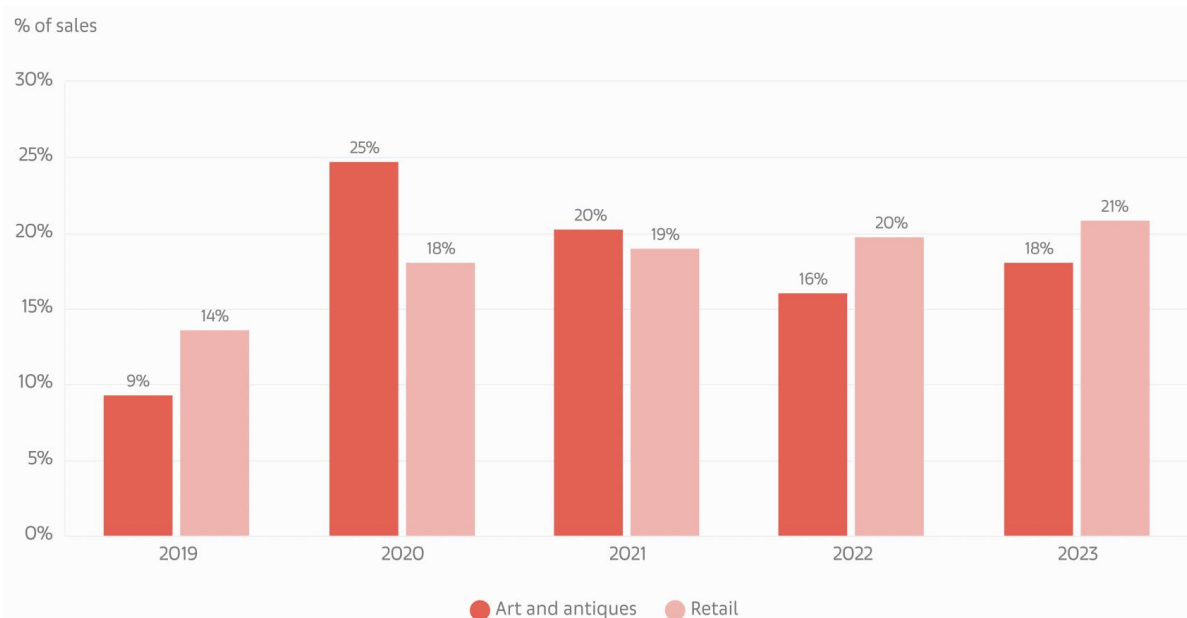


**Figure 1.** The Prominence of Online Sales and its value in the global turnover 2019-2023 [2]

The digital revolution is fundamentally transforming the art world by introducing innovative experiences, refreshing sensations and new opportunities, while the rise in online transactions signifies a definitive transformation in the consumption, promotion, creation, and distribution of artworks [3]. This presents a challenge to the conventional business model of commercial galleries and may potentially constitute a financial risk to young galleries. In response to the decline of the art market and the reduction of offline sales in 2023, as indicated by the Art Basel and UBS Art Market Report 2024, illustrated in Figure 1, online-only sales now account for 18% of the total turnover in the art market, reflecting a 2% increase compared to the previous year. While this figure is below the 2020 peak, it still shows a significant increase from 2019, indicating a steady trend in online sales growth [2]. The increase in online sales and their contribution to the market's overall turnover highlights how consumer behaviour is shifting towards online platforms and demonstrates how crucial the digital market is becoming for galleries.

In the current economy, it is more important than ever for commercial galleries to “leverage social media and online platforms to reach collectors effectively”, as highlighted by Taichung City, Taiwan's Artnutri Gallery's owner, Vincent Chen. Nonetheless, sustaining an online presence demands significant financial resources and a considerable investment of time [4]. During the COVID-19 lockdown, galleries were compelled to shutter their physical art fairs and exhibitions, necessitating a rapid transition to online and digital platforms to sustain visibility and generate sales. This shift became crucial for many galleries, as it enabled them to engage with audiences and maintain client relationships in an increasingly digital environment. As in-person events resume, galleries now face the multifaceted challenges of maintaining a dual presence in both digital and physical space. This duality requires strategic planning and considerable financial investment, as galleries must effectively balance the demands of online engagement with the logistical complexities of physical exhibitions. Francesca Kaufmann, co-founder of Kaufmann Repetto Gallery, which operates in both Milan and New York, emphasizes the significant hurdles associated with this dual approach. She points out that for smaller galleries, the task of managing both online and physical spaces presents considerable difficulties, particularly due to their limited resources and staffing [5].

Given the high costs associated with managing websites and online operations, many individual galleries have sought partnerships with larger institutions that can provide the necessary resources. An example of this partnership was seen between Sotheby's and small to medium-sized galleries. The online platform Sotheby created and managed is called Sotheby's Gallery Network, it provides an online marketplace and platform for purchase and for galleries to showcase their represented artists' works and enables immediate purchase [6]. The alliance enables smaller galleries to exchange prospective clients, minimise expenses, and enhance their online visibility to enhance sales but also significantly increase the visibility and recognition of the artists represented by the galleries. It exemplifies a proactive approach to addressing the economic challenges that arise from the digital transformation of the contemporary art market. By leveraging online platforms, galleries are able to adapt to evolving consumer behaviours and preferences.

A key challenge confronting commercial galleries, resulting from shifts in collectors' purchasing behaviour towards online platforms, is the widespread accessibility of art facilitated by digital networks and social media. Platforms like Instagram and various cryptocurrency marketplaces have enabled collectors to interact directly with artists, allowing them to view and acquire artwork without the involvement of intermediaries. This shift diminishes the traditional authority that galleries once maintained, as they previously controlled exclusive information regarding the availability and pricing of artworks [7]. The increased transparency and accessibility offered by these digital platforms fundamentally challenge the conventional role of galleries as intermediaries in the art market. Collectors now have the ability to bypass galleries entirely, fostering direct connections with artists and raising essential questions about the ongoing relevance of galleries in the art transaction process. This transformation not only reshapes the dynamics of art sales but also calls for a reevaluation of the function's galleries serve in an increasingly digital landscape.

### 3. Increasing Costs

The expenses of operating a commercial gallery have gone up dramatically as a result of the globalisation of the art market. These escalating expenditures including overheads, rent for gallery space, shipping, travelling and attendance in art fairs, are generating serious resilience, and survival issues for galleries. As Brigade's director in Copenhagen, Karen Foss Becker, observes, "Risks are especially prevalent when day-to-day overhead costs continue to increase, spanning from shipping costs to rent prices for the galleries' brick-and-mortar." [4]. These difficulties are made worse by the worldwide art market's decline, which saw a 4% drop in overall art sales in 2023. Rising rental costs have caused several galleries to close in major art cities like New York and London, stressing the financial challenges faced by smaller and mid-sized galleries. *The Global Art Gallery Report by Magnus Resch* reveals that many of these establishment's function at a loss. They grapple with thin profit margins and restricted revenue streams, which further exacerbate their economic difficulties [8].

The costly logistics of participating in international art fairs add to the high expenses of operating actual gallery spaces. For example, excluding additional expenses such as shipping, travel, accommodation, and the non-refundable application fee, securing a medium-sized booth at Art Basel can nearly reach \$60,000. When accounting for all associated costs, the total expenditure for participating in these art fairs frequently surpasses \$100,000. This significant financial burden highlights the challenges galleries face when attempting to showcase their work at high-exposure events [9]. This financial strain draws attention to the difficulties and unviability of the gallery's conventional operations and business model, which necessitate both upkeep of a physical location and significant investments in international recognition.

Despite being essential for generating visibility and revenue, art fairs have grown more costly and less lucrative. According to the Art Basel and UBS report, the share of sales attributed to dealers at these events has declined from 42% in 2019 to just 35% in 2022 [9]. This trend illustrates the mounting challenges galleries face in securing profitable returns from their investments in art fairs,

forcing them to reconsider their participation strategies and explore alternative avenues for engagement and revenue generation. Furthermore, participation is becoming even more financially difficult due to inflation, rising fair stand prices, and associated charges. Galleries continue to apply for art fairs in order to guarantee visibility and establish their market presence, even though attendance and purchases at these events have decreased. This is due to the fact that this 35% sale has no substitute.

Shipping expenses are another issue that galleries are dealing with, which hinders their ability to sell internationally. Increased transportation costs may raise gallery overheads or raise collector pricing, which may lower demand. These elements working together highlight how galleries must innovate and modify their business plans in order to thrive in a more difficult climate.

Galleries are creatively adapting to these difficulties by expanding their sources of income, such as leasing gallery space, in response to the escalating high expenses of logistics, rent, and art fairs. Additionally, utilising enough time that prospective customers were not even in, showing in pop-up locations and flexible, short-term leases lowers overhead expenses for permanent hire places and staff. More synergies and cooperatives have also been formed, and galleries have started economic agreements. For example, the Condo Art Fair facilitates collaboration among galleries by allowing them to share exhibition space and resources, which reduces costs and increases visibility [10]. Another notable instance is the LGDR gallery consortium in New York, where four mid-sized galleries collaborate to combine their resources for exhibitions and advisory services. This hybrid model not only enhances their collective reach but also fosters a supportive community among participating galleries [11]. In order to cut costs, other galleries can ship artworks together thanks to shipping and logistic technology galleries. By improving financial stability, these adjustments guarantee the gallery industry's ability to withstand market volatility and promote sustainability in the long run.

#### **4. Global Landscape and External Factors**

Galleries face several difficulties since they are extremely susceptible to broader political and economic changes. Since art is essentially a luxury commodity, the economic situation and political climate beyond the domestic market, such as the stock market, have a significant impact on the art market internationally. Canice Prendergast, an economics professor at the University of Chicago Booth School of Business, claims that the market is no longer closely aligned with economic trends; instead, it follows the trajectory of wealth. This transition has been significant, especially in recent years [12]. Nevertheless, the global art market experienced a 4% decline in value in 2023, attributed to factors such as inflation and ongoing conflicts, according to a report by Art Basel and UBS [13]. Inconfidence and uncertainty have resulted in collectors' hesitancy due to today's international economic recession and ongoing wars in places like Israel, Palestine, and Ukraine.

Particularly worrisome is the instability of the larger political and economic landscapes. As a result, the collectors kept their money and held off on purchases. Galleries cannot just cut prices to boost sales since doing so would make the artists they represent less valuable on the market. This demonstrates the perilous situation of galleries in these difficult times by establishing a fine balance between preserving artists' prices and promoting collector purchases.

#### **5. Reaching New Collectors**

Given their small customer base, galleries are especially subject to broader political and economic changes. Even while income has expanded globally, many newly affluent people are not becoming art purchasers, and each gallery usually only sells to a select few buyers. In an interview with ARTnews, Magnus Resch pointed out the concerning fact that the art market has consistently encountered a challenge with attracting new buyers. Despite a significant increase in the number of millionaires globally over the last decade and art-associated events' attendance, the market's overall

value has not shown substantial growth [14]. Thereby, the negative correlation between the uplifting trend of participation and stagnated market turnover suggests that the newly affluent do not take part in the art market, which is a conversion problem.

Beyond simply appealing to new customers, galleries also have to uphold their reputation for exclusivity and distinction while working to grow their clientele. This problem is made worse by the growing income disparity, as the number of ultra-wealthy people keeps rising while art sales do not. Furthermore, as most galleries rely mostly on a small number of significant collectors, changes in political and economic stability will have an impact on collector confidence and investment capacity. Certain galleries are actively seeking to connect with a more diverse and youthful clientele by building alliances with influencers and collaborating with different industries. By integrating their artists' work into various cultural contexts, these galleries aim to expand their reach and appeal to emerging audiences beyond the traditional art market. This approach not only enhances visibility but also fosters innovative partnerships that attract new buyers. [14]. Yet, commercial gallery's primary attributes of exclusivity and prestige also make it difficult for them to implement flexible marketing strategies.

## 6. Discussion

Admittedly, a part of the limitation of this research paper is that it primarily focuses on small to medium-sized galleries, where financial pressures and limited resources (such as the number of employees and time to develop an online platform and travel to art fairs) are most prominent. However, these galleries, in contrast to top-tier and mega-galleries like Pace, David Zwirner, and Gagosian, face greater risks and fewer resources to support their strategic changes. Given that the majority of galleries, do not have the vast resources of larger institutions, this paper aims to serve as a valuable reference for their strategic planning, helping them to identify and implement viable solutions by understanding how galleries operating on similar scales navigate these challenges.

Ultimately, these smaller galleries serve as tastemakers and gatekeepers, shaping the quality and variety of artwork that the public receives. As a result, the sustainability of these galleries is crucial not only for their own survival but also for the broader art world. Without sustainable strategies to cope with these changes, their innovation and creativity can be hampered when their survival is threatened and when they fall into the perpetual cycles of sales, commercial exhibitions, art fairs, profitability, and ways to survive. Future research should look further into alternative presentation methods for galleries, and deeper into whether the exclusivity that many galleries attempt to curate limits their ability to reach wider audiences, or whether alternative strategies can be employed to maintain both prestige and broader market access. This area of inquiry would provide deeper insights into how galleries can preserve their cultural and economic roles in an increasingly competitive and digital art market.

Looking forward, future studies should explore deeper into the core value that galleries provide to their consumers and question whether maintaining prestige by exclusively targeting Ultra-High-Net-Worth Individuals is necessary. Alternatively, they could explore whether engaging with the general public could also be profitable. As digital transformations and consumer behaviour continue and become inevitable, galleries must not be too conservative in their strategies. While incremental changes like ways to reduce costs are valuable, but more urgent issue is re-examining the fundamental role of galleries within the art ecosystem.

Researchers should explore feasible, alternative presentation methods and explore new directions and innovative business models. This shift could challenge the traditional role of galleries as intermediaries and fundamentally reshape how they operate within the art ecosystem. This research encourages the exploration of these questions, especially as digitalization and market democratization continue to challenge the traditional gallery model.

## 7. Conclusion

The results of this research show that commercial galleries are increasingly adopting collaborative strategies to cope with the multifaceted challenges in today's art market. These strategies include shared exhibition spaces, cooperative projects, and expanding their presence on digital platforms. These approaches reflect a necessary evolution in how galleries operate, as they adapt to changes such as digital transformations, rising operational costs, and shifts in collector behaviours. From these results, the conclusion can be drawn that to maintain relevance and profitability in an ever-changing market environment, commercial galleries must continue evolving their business models. Flexibility and innovation, particularly in collaborative efforts and digital engagement, are essential for galleries to thrive.

This research also offers valuable insights for future studies on how commercial galleries' adaptability impacts their long-term sustainability. It highlights the crucial influence of digitalization, economic volatility, and changes in market dynamics, suggesting that these factors will continue to shape the next phase of innovation in gallery operations. The impact of these challenges goes beyond financial concerns, influencing the very role galleries play in the broader art ecosystem. The findings suggest that galleries must reassess their traditional business practices and explore new ways to balance exclusivity with broader market engagement.

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