

Skate's Art Market Research

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Skate's Market Notes

Understanding Abbey House: Specialty Retail Play Focused on Rapidly Growing Class of Eastern European High Net Worth Consumers

On May 5, 2011, Skate's added a relatively new firm—Poland's Abbey House (established in 2010)—to Skate's Art Stock Index. On August 16, 2011, Abbey published its six months financial results, the first public financial disclosure since it listed on the Warsaw Stock Exchange earlier this year. We have studied Abbey House and researched its business model, and in this issue of Skate's Market Notes we discuss our findings.

1. Contemporary Artists and Contemporary Buyers

Abbey House's business model is based on the simple premise that new money in Poland wants to buy new art that symbolizes the current era. This paradigm is not a new one in terms of art history, but given the world of opportunities in the emerging Polish art market, which continues to benefit from steady growth of the country's economy over the last two decades, Abbey's focus is very clear: rather than marketing old art to the newly rich, it is trying to develop new brands for the new Polish elite.

Abbey is working on this business case passionately. First, it has secured long-term (five-year) contracts with contemporary Polish artists. These contracts resemble stipends and are paid as monthly allowances in exchange for artists dedicating five years of their careers to producing artworks that become exclusive Abbey House inventory. Abbey then sells these works at its own pace (and price), as well as uses them within its own marketing and exhibition program. Fourteen artists are currently signed up with Abbey, and the firm plans to take on a maximum of six more. Artists are recommended by the firm's Advisory Board, which is composed of Polish art critics and cultural opinion leaders, but the final decision lies with Abbey's management board. The objective of this "art greenhouse" effort is to secure a supply of works from established Polish artists at the lowest possible cost and concentrate marketing resources on those names, thus turning them into Polish and hopefully international art market brands who symbolize Poland's contemporary scene.¹

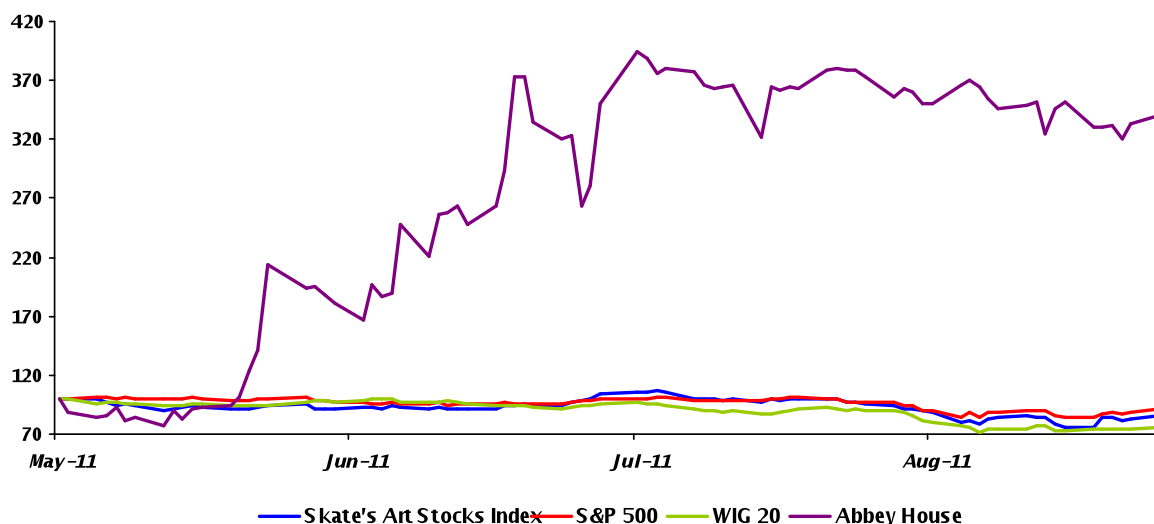
¹ For the full names of Polish artists signed by Abbey and the economics of those arrangements, including levels of stipends paid and number of artworks acquired, please send an email to skate@skatepress.com with your name, contact details and request for a detailed Abbey research report prepared by Skate's.

Second, Abbey has acquired a 60% ownership interest in the *Art & Business* magazine from Rempex, a major local auction house. Abbey has turned the magazine into a glossy lifestyle publication targeting the affluent levels of Polish society. With 8,500 copies sold monthly—including lucrative co-branding arrangements made by Abbey with local private banks—*Art & Business* reaches and develops the target customer base Abbey needs to market its artworks. While its internet strategy lags somewhat, the magazine itself has clearly found a company that is able to close at least one distribution deal per month with private banks or luxury goods vendors interested in expanding in the Polish market by entering co-branded publication programs with Abbey.

With an art supply secured and marketing systems being built around *Art & Business*, Abbey has chosen the auction format to sell its artworks. The firm now holds monthly auctions and sells one artwork by one house artist per auction. This is the practice stated in the catalogue, although having learned from Sotheby's practice in which private sales have already become its fastest growing business, Abbey would naturally be happy to sell several more works off-auction to good clients upon request.

Abbey's Polish management team has stellar marketing credentials, having led the expansion of BMW and eco-food retail into the local market. Team members are able to apply their skills in their new jobs, stylishly whisking potential buyers in Abbey-branded limousines to and from auction venues and artist studios, appearing on local television evening newscasts preaching art as a safe haven investment and entering distribution deals with big Polish names such as Andrzej Vajda and his catalogue of limited edition prints and autographs.

This is all a very interesting and an ingenious effort, and the equity story has flown well with local investors. The question that remains, though, is whether there is any real upside for Abbey and its shareholders.



The local Polish art market has approximately \$50 mln in annual turnover, and given the sleepy offices of major local auction houses, it is anything but growing. If the Russian market is any guide, newly rich Poles will go shopping for well established art once they acquire a taste for collecting, which will leave local contemporary artists with virtually no market to speak of. And compared with the Russians who have living artists like Kabakov and Bulatov whose works have sold for millions, Poland is barely on the radar screen of the global contemporary art market scene. The only Polish representative in Skate's Top 5000 is Henryk Semiriadsky (check for details at www.skatepress.com).

2. New Age Specialty Retail, Inaugurated by Saatchi, Practiced by Gagosian, Adopted by Abbey

It turns out that Abbey House has a bold solution to this “lack of a market” problem: simply go out and create one. Abbey is essentially playing a specialty retail game by positioning contemporary artworks as luxury consumer goods in the \$700-1,500 price range in order to get new clients started. It emphasizes the “value protection” nature of art as opposed to other luxury categories such as cars and clothes. While Abbey’s consumer marketing is perhaps less subtle than that of Saatchi and Gagosian, it is essentially playing their game except for the fact that it has neither Gagosian’s resources to open flagship stores in world capitals nor the brand power of Saatchi to transform artists from no-names into Saatchi stars. That said, Abbey is achieving this status very quickly on a local scale and has already been inundated with floods of applications from aspiring local artists. It is in the midst of making a final decision this fall about the timing and location of its new flagship retail location in Warsaw (one possible option is the grandiose hall of the Warsaw National Theatre in the heart of the city).

The business case of specialty luxury retail in Poland is very different from that of servicing the art market per se. Poland, after Russia, is the largest luxury consumer goods market in eastern Europe both in terms of growth and size, with a total addressable market size of PLN 910 bln (\$315 bln) and turnover of PLN 29 bln (\$10 bln) in luxury goods trade. Abbey House is very clear about its target market, focusing on this \$10 bln trade by newly affluent Poles rather than the \$50 mln art trade largely built around the tastes of older generation Poles.

The strategy is working so far, albeit in small numbers. According to its six months financial disclosure, Abbey House, which has not yet completed a full year of operations, sold 41 artworks in Q2 2011, against 21 works in Q1 2011 and nine works in Q4 2010. The firm keeps sale prices for artworks within an unchanging range of \$700-1,500 per work; hence, its revenue dynamics have followed the number of artworks sold, reaching PLN 987,000 in Q2 2011 from PLN 404,000 in Q1 2011.

With 650,000 upper middle class Poles to attract (according to KPMG’s Polish luxury market report), Abbey clearly has a game plan. Now the biggest question for the luxury industry is which of Abbey’s “art brands” will sell and why.

3. Abbey’s Biggest Execution Challenge: How to Brand Contemporary Polish Art?

Saatchi and Gagosian spent decades building their reputations. They were able to make markets for Koons and Twombly on the back of their collectors’ reputation and reach. Abbey intends to follow the same path, but to do so considerably faster by focusing much more on commercial sales, aggressive multi-channel marketing, pitching the investment quality of art purchased at entry-level prices and committing to support the markets for their artists over at least a five-year horizon.

With this kind of approach, it arguably does not matter which artists Abbey has as long as the firm packages them properly for local artistic tastes and allocates sufficient marketing dollars (zlotys) to make the effort work.

As it turns out, Abbey has additional marketing tricks up its sleeve. First, the company is making a major bet on the ability of the Polish iconic movie director Andrzej Vajda to attract average Poles to buy art; the firm used its IPO proceeds to acquire the collection of Vajda’s signed and numbered prints of drawings, a lovely manifestation of Vajda’s multifaceted artistic talent and a fine example of celebrity portraiture. These drawings are now mixed with Abbey’s contemporary art and are sold at the same auctions, thus expanding Abbey’s audience to those who would not otherwise think of buying art but who can be attracted by the Vajda name. Second, Abbey has launched a set of art financial services, ranging from an art investment fund to a buy-and-store service plan that gives clients the option of not bothering with art appreciation (and the ownership costs that come with it).

Instead, they are able to allocate capital to art through various cost-efficient vehicles offered by Abbey without taking physical possession of artworks.

The firm is seeing a strong uptake of this offering by upper middle class Poles who have become increasingly frustrated with their traditional asset managers in the current market and are willing to experiment with alternative investment products. This practice of art buying advocated by Abbey might sound like vulgar consumerism with no relevance to the cultural pleasures of owning art. Yet, consumers who buy a BMW X6 and several works of Polish contemporary art are almost certainly more enlightened than those who buy only the BMW, as the former would follow the dynamics of the artist's name they have invested in, attend exhibitions and read the culture pages of local newspapers. We at Skate's would go so far as to say that in today's consumer society—and in the art market where Warhol has risen to become the world's third most valuable artist of all time—the way to promote arts and culture to larger audiences is to make them relevant in the global brand-driven shopping bonanza. If Richter, Koons and Murakami continue to lag behind with their iPad applications (none launched to date), the new kids on the block (some of them perhaps from Poland) may grab the online art trade and the offline market for branded gift merchandise by storm. In so doing, they will give rise to artistic brands on the back of the tidal wave of new, brand-conscious consumers.

Go Abbey!

Skate's is finalizing its valuation model for Abbey House and is watching its new auctions in September. We will release our target price for Abbey House shares in October on the basis of this model.