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# A Replicative Study Involving Commercial Art Galleries in Upstate New York

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**A Replicative Study Involving Commercial Art Galleries in Upstate New York**

by Yingtong Bu

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Certificate of Approval

[A Replicative Study Involving Commercial Art Galleries in Upstate New York]

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**Abstract**

This study is a replication study of "Building Sustainable Success in Art Galleries: An Exploratory Study of Adaptive Strategies" by Discenza, Smith and Baker in Colorado state, 2006. Like the original study, the current study investigates changes in the gallery performances, gallerists' perceptions of external factors (driving forces), and gallerists' intentions to apply adaptive strategies. The current study focuses on small commercial art galleries in the second-tier art market in upstate New York, while in the original study the focus was Colorado state.

An online survey was used to collect responses from gallerists (gallery owners or managers). Questions in the survey are categorized into five sections: (1) gallery characteristics; (2) gallery owner/manager characteristics; (3) changes in percentage of fiscal performance comparing the prior two fiscal years, (4) driving forces affecting gallery performance; and (5) a willingness to undertake each adaptive response in the coming fiscal year. Variables about driving forces and adaptive responses are rated on a five-level and a three-level Likert scale respectively.

Analysis includes two parts: descriptive statistics that apply to the whole population, and a t-test analysis that is performed for the galleries reporting increased total sales and for those reporting decreased sales, thus examining the relationships between study variables based on the fiscal performances (sales).

Mixed findings in the current study support the idea in the original study that the external environment of small galleries is complex, and some adaptive strategies are still critical in the small gallery business. Inherently, the gallery business tends to ignore competition, but, to a certain degree, is subject to external economic pressures. The similarities and dissimilarities between the current study and the original study also suggest some changes in the gallery industry, especially with regard to the importance of Internet usage.

# Chapter 1

## Introduction and Statement of the Problem

From a business perspective, successful art galleries are well-established and thriving in the art market amid a rapidly changing technological environment. In particular, first-tier galleries in major cities tend to have strong access to a high-end art market (such as elite galleries or auctions where high priced art is sold) in which transactions often involve selling the pricy artwork of well-known artists, collections of masterpieces, and antiques. It is the smaller, second-tier private art galleries outside major cities that are the objects of this study. This study focuses on the competition these galleries are facing, and looks at how these galleries react to their environment and how they build creative marketing strategies. Presently, many small private galleries are struggling to sustain themselves in a more competitive environment, and they are undertaking efforts to ensure their success (Wan & Ehrmann, 2014). This study investigates both basic managerial and innovative marketing strategies used in the small art gallery business. It examines the effectiveness of these strategies by collecting and analyzing responses from the perspective of gallery owners and managers.

**Topic Statement**

As a platform that connects artists to buyers and collectors, an art gallery is an integral sector in the general art market. Galleries also play an important role in the overall economy (TEFAF, 2014) with a specific business model that has combined marketing strategies with consideration of specific characteristics of the art market.

This study is a replication of Smith, Discenza, and Baker's 2006 study of art galleries in Colorado. Their research presented findings on the management practices and performance of galleries, as well as other factors that affect gallery success. One of their significant findings was that gallery owners were not overly concerned about the external environment, and consequently, they did not undertake adaptive business strategies. This lack of adaptive business strategies potentially adversely affects building sustainable value and achieving success in their gallery businesses (Smith, Discenza & Baker, 2006). The original study provides a framework to study the external driving forces effecting gallery performance and the willingness to take adaptive response, as well as a statistical method to measure and analyze these factors. Both the original study and this current study should help gallerists become more aware of environmental factors and adaptive approaches that can help them improve performance in running their gallery business.

The current study uses the original study's methodology, but adds to the body of literature on this subject by discussing contemporary topics and performs the study in a different region. Instead of focusing on galleries in Colorado, the current study focuses on galleries in upstate New York. These galleries appear to be more localized and of a smaller scale than most galleries in metropolitan areas, such as those in New York City.

In this current research, many galleries appear to be privately-organized, self-employment firms. Also, the market they are facing tends to be relatively low- to middle-end (i.e., lower-priced); thus, it is likely to have some similarities with the Colorado State art market where transactions frequently involve selling original artwork to art lovers and tourists, instead of to professional collectors. It is possible that many non-metropolitan and less urbanized areas have a less vigorous art market, and galleries there potentially face the dilemma of having a limited market share with increased competition from their external environment and the online art market.

The decisions of a gallery owner often influence a gallery's operational condition. As in the original study, the current study focuses on investigating gallerists' awareness of the environment and their responses to it. Furthermore, this study seeks to identify specific responses that gallery owners have undertaken and that positively affect fiscal performance.

**Personal Interest of the Topic**

Not only is the art gallery important to the culture of a society, but it is also important to the economy of an area. However, outside of New York City and especially in the secondary cities in upstate New York, running a successful gallery is challenging. Some galleries have downsized or even closed down in recent years due to unfavorable operating conditions, while some galleries have succeeded in competing in a generally growing art market. The researcher is curious about what factors, both negative and positive, affect a gallery's fiscal performance.

Smith, Discenza, and Baker's 2006 study about Colorado State's galleries showed that most gallerists failed to recognize the importance of external factors and thus failed to employ adaptive strategies to achieve success. This finding reveals some existing inefficiencies in operating the gallery business, and it arouses the researcher's curiosity about whether these inefficiencies still exist in second-tier art markets and negatively affect the art gallery business. Some gallerists may not have much concern about eliminating these inefficiencies, but since a gallery is a for-profit business, only profitable galleries ultimately survive.

The researcher, whose home is in China, is personally interested in the fine art market and in the small private gallery businesses. Small private art galleries are excellent platforms for newly-emerged artists and art lovers to trade artworks. It appears that these galleries have the ability to enrich the art market and to make art more obtainable and consumable. Nevertheless, running a private art gallery business is not easy. The environment for these small private art galleries is challenging, whether in small U.S cities and towns or in the researcher's hometown in China. Still, some galleries achieve success while facing these pressures, and this causes the researcher to wonder how they achieve success. The art market in China is growing rapidly (TEFAF, 2014), and it potentially will continue to grow in the future as there will be a greater need in the art market for small-sized private art galleries. In the researcher's hometown, Shenzhen, a city growing economically, the number of private art galleries has increased in recent years. From the current study, the researcher seeks to learn about the strategies and adaptions undertaken by the second-tier art market, and their resulting impact on the business. The researcher hopes that the findings of the current study can provide a helpful reference and be of value to start-up private art gallery businesses.

For the researcher herself, who seeks to work in the gallery business, this study is an opportunity to learn how gallery owners manage to apply strategies in their businesses, adapt to their environment, utilize resources, and discover advantages and disadvantages in their business strategies. Also, the researcher expects to develop practical ideas about how best to operate a gallery and to enhance her understanding of the art market.

**Definitions of Terminology**

This section defines the terminology to be used in the current study.

**Gallery:** Galleries considered in this study are small-sized, private, (i.e., not owned by any organization, government agency, or university) commercial, fine art galleries. They are physical halls or rooms displaying, presenting, and selling artwork from selected artists. Galleries mentioned in this study are professionally-run businesses that derive their profit from interpreting the distinct value of artwork in advance and then selling those pieces of artwork. Usually galleries hold exhibitions to display artwork from presented artists. In order to ensure future transactions, fiscal profits, and positive reputations, galleries may also focus on building relationships with artists, and seeking out and cultivating newly-emerged artists.

**Strategy:** A strategy is a plan of action designed to achieve an aim. Two strategies mentioned in this study are the rationalist approach and the adaptive approach. Mintzberg, Ahlstrand, and Lampel (in Kung, 2008) and Kung define these approaches as:

> [The rationalist approach is e]ssentially a plan, formed through the methodical, sequential analysis of the environment and the evaluation of the extent to which organizational resources can be utilized to the advantage of environmental opportunities or to address environmental threats (in Kung, 2008, p. 110)…. If rationalist approaches see strategy as a plan, then adaptive ones see strategy as an evolutionary process where change takes place progressively as firms undertake a series of strategic readjustments in response to a changing environment (Kung, 2008, p. 120).

**Upstate New York Region:** In the current study, the region of upstate New York generally refers to the northwest part of New York State. The region excludes New York City and its environs, Long Island, and Albany. Major cities of this region are Buffalo, Rochester, and Syracuse. In this study, investigated galleries are mainly located in Buffalo, Rochester, Syracuse, the Niagara Falls, and Finger Lakes regions. Unlike the New York metropolitan area, these regions have vast areas of rural land and scenic rolling hills. As a result, upstate New York supports a strong agriculture industry, and the region attracts tourists, (Creative Industries Reports for New York, 2015), and benefits from a very strong tourism industry.

## Chapter 2

### Theoretical Basis

The current study is a replication of Smith, Discenza, and Baker's study (2006) about Colorado art galleries. Following their method in the current study, the researcher focuses instead on art galleries in the upstate New York region. The intention of the current study is to investigate the external driving forces and the internal adaptive responses of small galleries in the New York state environment.

The investigation is primarily conducted through a survey which collects responses from gallerists (i.e., gallery owners/managers). The focus is mainly on three aspects: performance changes, driving forces, and adaptive responses. Gallerists are asked to rate each variable in the survey by using a Likert scale measurement; thus, the responses are available to be evaluated through a t-test. The survey gathers background information about the gallery business; respondents of the survey should have a full understanding of their galleries' business strategic management and fiscal performance.

Additionally, in this current study, the place and time (upstate New York in 2016) are different from the place and time of the original study (Colorado in 2006) ; thus, the survey was slightly modified to fit the current study.

## Past Study Findings

In the original study, Smith, Discenza, and Baker (2006) developed a survey that investigated both rationalist and adaptive theoretical approaches applied to the gallery business. They developed the following two hypotheses:

> H1. Art gallery owners and managers will not perceive that driving forces have an extensive impact on their firms' success, and their perceptions (of driving forces) are not related to changes in performance.
>
> H2: Art galleries with poor performance will be more likely to implement adaptive strategic responses in an effort to build better performance and long-run sustainable value (p. 31).

In addition to examining several standard performance indicators of the gallery business, their survey examined environmental factors (called *driving forces*) by asking gallerists to rate their perception of each factor. This part of the study related to the rationalist approach, and thus tested H1. Another part of the survey examined the adaptive approach, and thus tested H2. Gallerists were asked to rate their intention to apply adaptive strategies in the future. The aim was to determine whether there was a relationship between the past performance of the galleries and the willingness of owners/managers to pursue the application of adaptive strategies.

According to the definition of the rationalist approach, the business environment can be analyzed systematically through evaluating its resources, competitors, strengths, and weaknesses (Kung, 2008). In the original study, these indicators were called driving forces, which is the term originated by Michael Porter in his famous business model, the Five-Force Model. Kung commented in her definition of the rationalist approach that the Five-Force Model is “probably the single best-known model from the ‘rational’ school” (p. 111), and it is a significant factor in explaining the rationalist approach.

In terms of the rationalist approach in the original study, findings show that: (1) there is a disconnection between fiscal performance of galleries and gallerists’ perceptions of the external environment; and (2) the rationalist approach is insufficient for building a sustainable gallery business strategy.

The adaptive approach can be seen as a response to the rationalist approach. The authors of the original study used the terms *strategic level responses* or *adaptive responses* in their survey. An adaptive response is the implementation of a positive activity to improve performance; this response can occur at any level of the business strategy (i.e., business level, functional level, or operating level) (Thompson, Strickland, & Gamble, 2005). Each of the adaptive responses in the original study were defined with assistance from two art professionals. Smith, Discenza, and Baker (2006) found that gallerists perceived that certain adaptive responses had an impact on gallery success.

However, in the original study, there was no significant connection between the rationalist approach and the adaptive approach since gallerists tended to ignore the rationalist approach, but still somewhat paid attention to the adaptive approach. The results analysis showed that galleries with increased sales had a greater intention to use some adaptive responses (such as "event planning"), but had a lower intention to use other adaptive responses (such as "upgrading computer system"). Smith, Discenza, and Baker (2006) found that respondents indicated that they will continue to emphasize adaptive strategies that have historically received focus in this industry" (p. 38).

## Comparison Factors

In the original study, Smith, Discenza, and Baker (2006) investigated descriptive statistical data concerning the performance changes in the gallery business: Did sales increase or decrease when the most current complete fiscal year is compared to its preceding year? Then, within each category, two sets of variables were examined by means of a questionnaire: One set of variables related to the rationalist approach, and the other set related to the adaptive approach. By using these variables, Smith, Discenza, and Baker (2006) examined the relationship of gallerists' perception of driving forces and gallerists' intentions to implement adaptive responses. The current study follows this methodology and uses the same variables. The variables are listed in Table 1.

Table 1
*Identifications of Driving Forces and Adaptive Responses*

| Driving Forces Variables | Adaptive Responses Variables |
|---|---|
| Competition | Event planning |
| Proximity to galleries | Proximity to galleries |
| Web competition | Electronic commerce |
| Tourism | Upgrading computer system |

| Driving Forces Variables | Adaptive Responses Variables |
|---|---|
| State promotion | Marketing gallery |
| Marketing gallery via web | Marketing events |
| Marketing gallery via advertising | Financial management |
| Supply of art | Customer service |
| Reliability of artists | Artist relationship |
| State of economy | Cultivating new artists |
| Discretionary spending | Theft/security management |
| Business taxes/fees | |
| Community involvement | |
| Gallery Donations | |
| Source: Smith, Discenza, and Baker, 2006, p. 35. | |

**Reasons for and Benefits from a Replication Study**

There is a likelihood that an investigation of art galleries in upstate New York can be modeled after the original study. The region of upstate New York, known for its historical ambience and artistic communities, has many small-scale art galleries; also, the upstate New York area does not include New York City; thus high-end galleries facing the global market are excluded. To some degree, the upstate market for art galleries appears to have some similarities to that of Colorado state, in which the original study was undertaken.

The original study by Smith, Discenza, and Baker (2006) provided a practical framework and gave direction to investigate the art gallery business in New York. Their study focused on factors which are important to gallery business strategy in relationship to small art galleries. Furthermore, by analyzing strategic approaches, they set forth a model to be used in the current study.

Working with similar market conditions, having the same purpose, and using the same methodology allowed the researcher to develop the research more systematically and effectively. Replicating Smith, Discenza, and Baker's 2006 study presented an opportunity to obtain greater knowledge about the upstate New York art market, and thus to come to a better understanding of gallery management.

## Chapter 3

## Literature Review

In their original study, Smith, Discenza, and Baker (2006) developed their research from the perspectives of both the rationalist and the adaptive approaches. Using the rationalist approach, they examined the driving forces in the external environment and evaluated those forces by collecting ratings from gallery owners and managers, in order to see if those driving forces were affecting gallery success. Using the adaptive approach, they also examined the strategic responses that gallery owners/managers preferred to attempt in their businesses.

Two hypotheses were examined in this study: The first hypothesis was that gallery owners/managers do not perceive the driving forces as having an extensive impact on gallery success and that they do not matter in reality. The second hypothesis was that galleries with poor performance are more likely to implement adaptive responses. In the process of examining these two hypotheses, Smith, Discenza, and Baker built a research model.

This literature review chapter elaborates on these two approaches (i.e., rationalist and adaptive) based on Smith, Discenza, and Baker's 2006 study, and indentifies the driving forces and strategic responses that were examined in their study. Also, their findings are displayed within Porter's Five Forces Model, and they are discussed, along with findings in other studies and papers. Accordingly, this chapter identifies those indicators that are examined within the context of the current study.

## Strategic Perspectives

Smith, Discenza, and Baker's research drew from the strategic management literature regarding strategic change (Hitt and Ireland, 1999; Smith, Discenza & Baker, 2006) and strategic responses to shifts in the external environment (Porter, 1985; Smith, Discenza & Baker, 2006). Thinking about gallery management practices, performance, and factors that affect gallery success, Smith, Discenza, and Baker presented two strategic perspectives in their study: the rationalist approach and the adaptive approach. Kung (2008) defines these two approaches.

## Rationalist Approach

The rationalist approach is a strategy that sees the firm or organization as a rational system. Kung (2008) uses Morgan's metaphor of rationalist approach as "rational systems that operate as efficiently as possible with standardis[z]ed processes, mechanistic designs and clear goals" (p. 109). The rationalist approach focuses on strategic activities, the market's structure, and the interactions between these two. It looks toward external factors that give a firm a competitive advantage. The underlying assumption of the rationalist approach is that the environment is the starting place for implementing the strategy. The rationalist approach, or school, perceives strategy as essentially a plan that fundamentally is to methodically and sequentially analyze the environment and organizational resources, then evaluate them comprehensively, thus allowing the firm to seize opportunities and address threats at the same time (Kung, 2008). This approach seeks to reduce the uncertainty and complexity in the strategic environment and to provide a clear basis for strategic decisions and action. Essentially, the rationalist approach involves exploring the logical consequences of various strategic options. This approach has dominated the field of strategy for a long time, and still provides the cornerstone to business school and management consulting activities (Kung, 2008).

### *Porter's Five Forces Model*

The term "driving force," is used by Porter in his Five Forces Model, which is "probably the single best-known model from the 'rational school'" (Kung, 2008, p. 111). In this literature review, factors in Smith, Discenza, and Baker's study are categorized into five sections by applying Porter's Five Forces model.

Porter (1996) provides a more detailed description of "strategy." He states that strategy is not only about effectively operating a business, but also about achieving an accurate and appropriate strategic position by "performing different activities from rivals or performing similar activities in different ways" (p. 62). In order to achieve a unique and valuable strategic position, one needs to evaluate various sets of activities, and the Five Forces Model offers a clear structure for evaluation.

The Five Forces Model states that competition depends on five competitive forces (Porter, 1980a): (1) the threat of entrants, (2) buyer power, (3) supplier power, (4) threat of substitutes, and (5) rivalry among the existing firms (Kung, 2008). Chakravarthy (1997) points out that the Five Forces Model, as a framework, is useful when the competitive forces are interpreted by this model and when the stakeholders (indicators) involved are relatively stable and independent. In this situation, the model is helpful in determining an optimal strategic position through a close analysis of the dynamic environment (Kung, 2008). The collective strength of these forces helps to determine the ultimate profit potential and attractiveness of a firm or industry in the long run. Also, changes in the strength and weakness of a firm or industry can be determined by applying Porter's Five Forces Model.

Smith, Discenza, and Baker (2006) hypothesized that gallery owners/managers did not perceive that driving forces had an effect on their business's success and that their perceptions were not related to changes in performance. They examined this hypothesis by comparing changes in the driving forces between the current and the previous fiscal year. The current study considers these driving forces in terms of the Five Forces Model developed by Porter (1980a). In Table 2, driving forces, as identified in the original study, are categorized into five forces by applying Porter's model. The later part of this chapter takes a closer look at the external environment through the perspective of the Five Forces Model.

Table 2
*Driving Forces Categorized by Porter's Five-Force Model*

| Porter's Force Category | Driving Forces |
|---|---|
| Threat of New Entrants | State Promotion of Colorado<br>State of Economy<br>Business Taxes/Fees<br>Community Involvement<br>Discretionary Spending |
| Existing Rivalry Between Firms (Intensity of Competitive Rivalry) | Competition<br>Marketing Gallery via Advertising<br>Community Involvement<br>Gallery Donations |
| Bargaining Power of Buyers | Tourism<br>Discretionary Spending |
| Bargaining Power of Suppliers | Supply of Art<br>Reliability of Artists |
| Threat of Substitute Products | Web competition<br>Proximity to galleries<br>Marketing gallery via web |

From the results and discussion of Smith, Discenza and Baker (2006)'s study, their hypothesis that the relationship between gallery owners'/managers' perceptions of external factors and the performance of their firms were shown to be very weak. The statistical result did not show that external factors had a significant impact on the galleries' business. On account of the complexity and subjectivity of the gallery business in which artwork is regarded as "very personal product(s)" (p. 38), it can be explained that the gallery business has been influenced very little by external factors. The Internet being a particularly important external consideration, the researchers proposed that the major question was whether smaller buyers, sellers, and collectors were willing to use this non-traditional means (the Internet) as a way to merchandise art products (Smith, Discenza & Baker, 2006).

*The Threat of New Entrants.* The gallery business's key role is being a medium between artists and buyers, and the gallery business involves "discovery [of new artists], legitimation [bringing artwork to the market] and presentation to the insider community of folk artists as outsiders" (Marshall & Forrest, 2011, p. 118).

First is the importance of gallery management expertise. Entering the gallery business is highly risky because it "entails specific investments, particularly in knowledge of the arts. Moreover, with established galleries already in the market, it is difficult to establish a gallery as a newcomer" (Prinz, Piening & Ehrmann, 2012, p. 154). However, starting an art gallery that targets the lower-tier art market is more feasible and easier than targeting the primary or secondary art market. It requires a smaller amount of startup capital (funds) and less expertise concerning the sale of art, so most private gallery owners are able to start their business as a matter of their own interest without expecting high returns. In contrast, the threat of new gallery entrants, as well as the capacity of the art market, is a significant external factor for existing galleries.

The economic environment has a strong impact on the threat of new entrants. "The traditional physical art gallery, as the industry has known it, is struggling to maintain an existence amid an unfriendly business environment of escalating rents and rising expenses" (Vickers, 2005, p. 3). In Colorado, Smith, Discenza, and Baker found that the external environment was somehow representative of this situation. The economy, government policy, and customers' discretionary spending were relatively of less concern to owners/managers than were other forces. Their lack of concern was attributed to the art gallery business having cottage-industry characteristics. It is possible that the threat of new entrants could either be a serious problem to existing galleries, or it could help them by preventing new galleries from entering the market. First Research (2011), which reports on galleries and dealers, shows that gallery growth is rated as medium. The growth of the industry depends on consumer spending and on the need for effective merchandising and marketing. There is a risk that a slow economy affects discretionary spending, and because of galleries' dependence on discretionary consumer spending, the economy significantly impacts gallery sales. "Art is a discretionary purchase, so sales are likely to decline during tough economic times. During the recession of the late 2000s, employment at art dealers fell by about 20 percent. Both large and small galleries were forced to close as consumers cut spending" (First Research, 2011, p. 2).

Community involvement can also be an issue related to the threat of new entrants. "Because most galleries are small, independent operations with limited marketing budgets, driving traffic can be difficult. Walk-in traffic can be sparse and dependent on location" (First Research, 2014, p. 8). Small-size galleries are likely to aggregate in certain districts or areas within a city and form an art district. New entrants are not solely a threat to the existing galleries, for they can also enrich the art community. With increased activity occurring in an art community, new entrants can be a positive factor that helps galleries be more profitable.

*The Existing Rivalry*. From literature referred to in this chapter, it suggests that existing rivalry can be a complex but generally a positive force for small art galleries; usually concentraded galleries have more ability to attract more visitings than galleries spreaded in separted places. And with the industry changing along new technologies' emergence, the critical issue of running a small gallery is not about competition but being competitive.

For the gallery business, "the success of art galleries depends strongly on information and the effects of innovation, but it is hardly affected by competition" (Prinz, Piening & Ehrmann, 2012, p. 153). In Smith, Discenza, and Baker 's research (2006), about 90% of the respondents perceived that competition from other galleries did not have a significant effect on their business success. Porter (1998) said that the intensity of competition could have a positive side by encouraging firms to strive to surpass their competitors; competition is not simply a coincidence or bad luck. Several studies suggest that competition is not an initial factor among existing rivals; it is more likely to be a positive force than a negative force among the private galleries. The key point about existing rivalry is not about competing, but about the endeavor to be competitive: this can be achieved through innovation and development of digital technologies and different kinds of promotion.

In Smith, Discenza, and Baker's study (2006), the result was not sufficient to support that advertising and utilizing digital technologies enable a gallery to be more competitive. A possible explanation is that buyers in 2006 did not tend to purchase art online and that Internet technology was not developed sufficiently to satisfy the convenience and security needs of buyers. Also, since most private art galleries are small businesses with limited staff and budgets, building and maintaining a website can be too expensive (Elkins, 2011). “At the turn of the century, advancements in technology made higher-quality Internet options affordable for art galleries, so art galleries began going online” (Clarke & Flaherty, 2002, p. 146). More recent research indicates that booming Internet utilization encourages traditional private galleries to have their own websites, and the more advanced gallery websites are vehicles for selling artwork online. The Internet allows a private gallery to reach a broader audience, and a good online purchasing experience can attract younger collectors. High-end buyers possibly have more worries and are less likely to purchase expensive artwork over the Internet. Gallery websites can also work as a showcase to generate buyers’ interest and motivate them to visit galleries by offering related and timely information, such as information about the historical period of art pieces, related artwork, artists’ background, and transparent pricing. In addition, with its great advantage in convenience, the Internet allows customers to browse collections at anytime from anywhere. Finally, gallery websites have the ability to reach potential buyers beyond their local markets. (First Research, 2014),

Other digital developments (such as photographic and printing technologies) have drastically changed the art market. (First Research, 2014). Computerized reproductions make it possible for buyers to have inexpensive versions of great art pieces by generating much cheaper copies of original artwork with high accuracy. Also, by using some software, galleries are able to manage their point-of-sale (POS) and have a more efficient and clear way to control inventory, and build artist and customer databases (First Research, 2014), in order to target the audience and to create a more accurate marketing strategy. Information systems monitor sales by artist, edition number, and consignment payments. Also Internet-based services are able to search for a particular work or access pricing for appraisals.

Digital technology advancements also create new ways to promote a gallery. Traditional marketing and promotional vehicles of a gallery include printed catalogs, radio and TV advertising, direct mail (such as newsletters or postcards), and special events (such as artist receptions at which dealers can better motivate buyers to view collections). Participation in online art fairs can also broaden reach and increase awareness, especially for galleries in remote locations (First Research, 2014). Internet galleries can send emails to people who have subscribed, and social media can be used to improve the efficiency and effectiveness of promotions. Online art fairs are very friendly to small sized galleries since art fairs can provide more exposure of artwork and artists at a low cost.

There is a trend toward utilizing nontraditional locations to minimize the cost of running a gallery; these locations can be coffee shops and other retail spaces, and some public areas. These unique locations "help defray operating costs while creating a unique setting to view artwork" (First Research, 2015. p. 5). Displaying art in a retail space or coffee shop can expose artists to new audiences who are not necessarily art collectors or aficionados. A gallery located in an apartment building can operate with lower costs than traditional gallery spaces (First Research, 2014). From the aspect of attracting more consumers, these new locations have a great advantage by selling art at a lower price and bringing in a greater number of people to the art market.

*Bargaining Power of Buyers.* Understanding the role of buyers and the buyer's segment is the essential issue of marketing the gallery business strategy (Marshall & Thach, 2014). To the vast majority of small private galleries, the main buyers are occasional, minor collectors who buy for personal enjoyment or decorating purposes. Investors include individuals and organizations (Gutner, 2005). In the original study, tourism and discretionary spending factors represented buyers' power, and the results showed that they did not seem to have a significant impact. Shubik (2003) pointed out that "unlike the evaluation of many consumer goods, the problem is that the evaluation of the worth of an art object is by far more dependent on cultural norms and social acceptance than on the perceived needs of the consumers" (p. 195). Yet, tourism and increasing discretionary spending can be positive forces in growing sales for small private galleries. In a declining economic environment, which makes the discretionary spending shrink, attracting art consumers and sponsorships is more difficult.

In addition to the unique characteristics surrounding art products, the importance of the collector-patron relationship also emerges as an important topic in the literature. The establishment of long-term and stable relationships with customers, as Smith, Discenza, and Baker (2006) identified in their study, has long been a goal of galleries. Art galleries have placed a premium on building unique relations with artists and clients (Smith, Discenza & Baker, 2006). With advanced technologies, galleries have been innovative in expanding in audience/customer reach, at a relatively low cost and with superior customer service. For collectors/patrons, technology allows them to subscribe to the latest news from galleries, thus having an enhanced relationship with galleries. In addition to customer service, there are three other factors that influence decisions in purchasing an art product in this digitalized art market environment. They are production perceptions (i.e., some galleries provide different views of artwork), the shopping experience, and consumer risk (Quesenberry & Sykes, 2008). All four factors must be considered in terms of the bargaining power of buyers when dealing with online customers.

Understanding the characteristics of different types of buyers helps a gallery to deal with the bargaining power of buyers. As mentioned above, the majority of the buyers of small private galleries are the minor collectors, who are relatively less educated and less affluent than high-end artwork buyers. The audience of small art galleries includes individuals, interior designers, collectors, other dealers, institutions, and corporations (First Research, 2014). The small art gallery's pricing strategy should target these buyers. The price of artwork varies, depending on the buyer's economic situation, buying motivation, the buyer's appreciation for the intrinsic value of an artwork, his or her fulfillment with its aesthetic value, and finally the buyer's evaluation of the external value of an artwork (Marshall & Forrest, 2011). To the small art gallery's buyers, the purpose of the investment is relatively weaker than purely aesthetic satisfaction; therefore, a higher price will be more unlikely to attract new or old buyers. A characteristic has been put forth by Marshall and Forrest (2012) that indicates that individual buyers tend to have a more subjective motivation for purchasing because of their emotion being evoked by the artwork, while interior designers, institutions, other dealers, and corporations have as their primary motivation to seek an array of representative artwork by genres and artists.

Understanding buyers' characteristics, preferences, and their expectation of price can help a gallery to target its buyers and build a more stable relationship, thus providing the gallery with a greater advantage in dealing with the bargaining power of buyers.

*Bargaining Power of Suppliers.* Suppliers of galleries are artists. In the original study by Smith, Discenza, and Baker (2006), the bargaining power of suppliers was represented by the "supply of art" and the "reliability of artists." Neither of these was strongly perceived by gallery owners to have a strong impact on their business (Smith, Discenza, & Baker, 2006). "From a strategic assessment standpoint, the art gallery as a marketing intermediary is in a particularly strong position. Drawing on Porter's (1980) conceptual framework for accessing the strategic attractiveness of an industry, gallery owners are in a strong position relative to their suppliers, the artists" (Marshall & Forrest, 2011, p. 118). Artists highly depend on galleries in their transactions because galleries help them gain more exposure in a more elegant way, while appropriately establishing and evaluating their work (Marshall & Forrest, 2011).

Transactions in artwork begin with the artists, and the intrinsic valuation of the artwork ties to the artist's technical skills, reputation, and base price expectations (Marshall & Forrest, 2011). Base price expectations may impact the gallery's decision to represent the artwork of the artist. The "gallery use(s) several techniques to reduce uncertainty in transactions, such as classifying the artist's works into popularly recognized categories, and providing education information so that consumers are aware of specific features of good design. Galleries also provide artists' credentials, and make efforts to provide the artist with 'celebrity' status" (Marshall & Forrest, 2011, p. 119). The artist is "at a disadvantage in establishing a base for carrying out market transactions, and he/she becomes largely dependent upon marketing intermediaries such as galleries that represent the artist's work and insulate the artist from the marketplace" (Marshall & Forrest, 2011, p 115). Another significant issue discussed by Marshall and Thach (2014) is that the overall art market is fragmented by small galleries, and this might reduce the power that galleries have over artists. However, Schrager (2013) pointed out that in the lower-tier art market, galleries have more stability in their relationships with artists than with collectors in their system. Though some artists successfully manage to sell their artworks for high prices, most of the visual artists create artworks that sell for relatively low prices (Marshall & Thach, 2014). Furthermore, Marshall and Thach (2014) also explained that "alienation of artists from obvious marketing tactics places gallery operators in a strong position relative to the artists" (p. 25).

Schrager (2013) notes that "one of the roles of commercial galleries is to facilitate the relationships between collectors and artists and help groom the artists" (p. 11), and typically galleries "take artworks on consignment and often take margins on sales" (Marshall & Thach, 2014, p 25). Galleries choose to represent and promote high potential artists (Schönfeld and Reinstaller, 2007) and, as intermediaries, to sell artists' works. Galleries legitimate their artists, underlie the social definition of artworks, and plan events, such as artist solo shows and gallery group shows (Marshall & Thach, 2014;

Schrager, 2013). To the extent of the relationship between the gallery and the artist, the gallery helps the artists to build their reputations and have influence on artists' reputations through various mechanisms (Schönfeld and Reinstaller, 2007). On the other hand, well-known artists are able to enhance their represented gallery's reputation, as well. "The reputation of the gallery and the artist are intertwined and reinforce each other" (Schönfeld and Reinstaller, 2007, p. 145).

Digital technology affects the supply side of galleries, as well (Bakhshi & Throsby, 2012). The primary effect is the growth of interest on restructuring the traditional business model because an online platform provides an easier way to reach audiences and to increase involvement of individuals and firms in artwork transactions (Bakhshi & Thorsby, 2012). Also, the Internet and social media are effective tools in developing the brands of artists. Most artists consider social media as having a very positive impact in brand development (Swanson, 2012). Social media is likely to build and establish an artist's brand easily. With the distinction of the secondary (i.e., low-tier) art market from the primary (i.e., high-tier) art market in the previous section of this chapter, it can be acknowledged that galleries in the current study mainly carry artists who are at the beginning stages of their art careers (Velthuis, 2003). This means that online platforms (such as artists' personal websites and their social media) showcase and help the artist to self-promote and gain more exposure to the art market and customers (Lemel, 2010). However, the newly-emerged/lesser known artists still need intermediaries to legitimize their artwork and to create a much more organized promotion of the artists themselves. The gallery website is a good example of the kind of benefits that digital technologies can bring to the gallery-artist relationship. On gallery websites, the artists' profiles can be linked to the artists' personal websites or social media sites; both are becoming good ways for artists to build their personal brands.

In general, galleries have relatively stable relationships with their suppliers (in this case, suppliers refer to the artists) (Kottasz & Bennett, 2012), and are competitive in their bargaining power with suppliers.

*Threat of Substitute Products.* In the original study, the "results are intriguing because they suggest that electronic commerce is not viewed as a strong competitive factor by the Colorado galleries… [and surprisingly,]…more than half of the respondents do not see other galleries as influential in affecting performance" (Smith, Discenza & Baker, 2006, p. 34).

Many factors obstructed galleries' pace into the digital age. The majority of galleries did not take advantage of the Internet until the late 1990s (Elkins, 2011). Originally, galleries were reluctant to established an online presence (Elkins, 2011). In addition, artworks are different from commodities, and they require more face-to-face interactions. For a gallery of a small business size, with a limited staff, and a limited budget, running a website was often a bit unaffordable. Gallery owners did not see the online gallery as an immediate threat to their business, so they initially ignored the technology. With technology improvement and advancement, galleries can achieve the critical requirements of high resolution images, and with security enhancements, galleries can have their own websites at a much more affordable price. Also, technological development encourages consumers to broadly accept transactions online. By 2000, many online art businesses had been established; however, they often failed with the burst of the Internet bubble (Gordon, 2011).

Most online galleries are set up initially to function to promote their corresponding physical galleries. On those websites, galleries provide information about their exhibitions and featured artists, and their main purpose is to market the gallery by bringing their artists and artwork to a broader web audience and thus to attract potential buyers (Elkins, 2011). Some gallery websites also provide online transactions through which visitors can directly purchase artwork without face-to-face communication (Elkins, 2011).

Distinguished from these gallery websites, there are now some websites selling artworks as a place where prices are transparent. In search engines, such as Google.com, 20% of the online galleries are actually mall-type websites (Elkins, 2011). Like the galleries in upstate New York, these online galleries (such as Aspire.com, 20x200.com, Piccasio.com, and Amazon.com.) sell artworks mostly created by emerging and unknown artists at relatively low prices (Elkins, 2011; Locke, 2011). These websites are moving toward the primary market that second-tier galleries are aiming at (Schrager, 2013).

Besides the threat from online gallery websites, other factors (including other galleries) were not considered in the original study to be influential factors from the gallery owners' perspectives. To art galleries, nearby galleries are not seen as competition in the same way as other small businesses usually see similar nearby businesses. There is a likelihood that, in the upstate New York area, quite a number of galleries choose their location in a downtown area or in a certain district, along with many other galleries.

Artists, art groups, art dealers, and galleries build an art community, and their aggregation forms a cluster effect. This area is often called *an art district.* “A popular local economic development strategy is to offer incentives to artists, galleries, and other cultural activities that locate in neighborhoods designated as ‘Arts Districts’” (Schuetz, 2014, p. 1). In many cities located in the upstate New York area, there are art districts. An art district not only has a strong and positive impact on rejuvenating the local economy, but it also attracts more residents and tourists. The galleries in the art district, with more neighboring galleries, bring in more traffic and attract potential art buyers (Frost-Kumpf, 1998). Therefore it can be concluded that having a nearby gallery as an external factor has a more positive influence than a negative influence.

This concludes the analysis of using Porter’s Five Forces Model. While some results from the original study are supported by other studies, the above analysis also shows that there are some different opinions from the original study. These other opinions will be examined with more attention in the current study.

## Adaptive Approach

### *Definition*

The adaptive approach is a process in which applying strategies depends on examining factors internal to the organization with respect to the external environment; it is an iterative and evolutionary process (Kung, 2008). Kung (2008) states that “if rationalist approaches see strategy as a plan, the adaptive see[s] strategy as a pattern (p.120). Mintzberg (1978) described this as a “pattern in a stream of decisions” (as quoted in Kung, 2008, p. 120). During the process, modifications and readjustments are undertaken, and insights can be gained through applying both the rationalist approach and the adaptive process. Kung (2008) also explained with reference to Mintzberg, Lampel, Quinn, and Ghoshal's definitions (2003), that the adaption is intrinsic to strategy, and by extension, strategy is intimately involved with the organization that recognizes that shifts of the strategic plan are often desirable and must be pursued.

Thus, the adaptive strategy is not decided and set aside until it is implemented; rather, it gradually develops through monitoring the dynamic environmental changes. Consequently, strategy encourages responding to the changes (Kung, 2008), and hopefully gaining a degree of control over the impact of the environment.

Adaptive strategic responses can occur anywhere within a business's different hierarchical levels of strategy (the business level, functional level, and operating level), especially when performance is deteriorating (Smith, Discenza & Baker, 2006). Adaptive responses occur when a firm takes strategic actions and prepares itself to grasp the chance in the future, rather than just seeing strategy as static planning (Kung, 2008).

*Adaptive Responses in Original Study*

The second hypothesis of Smith, Discenza, and Baker's study (2006) investigated the willingness of gallery owners/managers to undertake adaptive responses and their perceptions associated with gallery performance. They assumed that galleries with poor performance would be more likely to implement adaptive responses, i.e., efforts directed towards running a more sustainable business.

Table 3 (selected from the original study's Table 3, "T-tests on Study Variables

Comparing Respondents that Report Sales Increases/Decreases") displays the adaptive responses examined in their study, separates participants into those with increasing sales and decreasing sales, and indicates the scale associated with attention they intended to devote to each adaptive response.

Table 3
*T-tests on Study Variables Comparing Respondents that Report Sales Increases/Decreases*

| Adaptive Responses | Increasing Sales | Decreasing Sales | Probability |
|---|---|---|---|
| Event Planning | 1.4 | 1.3 | 0.09 |
| Staff Management | 1.4 | 1.5 | 0.44 |
| Electronic Commerce | 1.2 | 1.3 | 0.50 |
| Upgrading Computer System | 1 | 1.3 | 0.08 |
| Marketing Gallery | 1.6 | 1.5 | 0.50 |
| Marketing Events | 1.4 | 1.3 | 0.46 |
| Financial Management | 1.4 | 1.5 | 0.32 |
| Inventory Management | 1.4 | 1.4 | 0.63 |
| Customer Service | 1.7 | 1.8 | 0.52 |
| Artist Relationships | 1.6 | 1.5 | 0.44 |
| Cultivating New Artists | 1.5 | 1.3 | 0.21 |
| Theft/Security Management | 1.1 | 1.2 | 0.46 |

Source: Smith, Discenza and Baker (2006)'s study.

The t-test result showed the increased sales group (mean=1.4) has a statistically higher intention, $p < 0.1$ (significance used in the original study) to undertake event planning (p=0.09) than the decreased sales group (mean=1.3). Also, the increased group (mean=1) showed a statically lower intention to undertake upgrading their computer system (p=0.08). Thus, “event planning” appear to have a positive relationship with sales growth and is potentially an impetus to better performance. As to a lower attention to upgrade computer system, Smith, Discenza, and Baker explained that galleries experiencing increasing sales might have already upgraded their systems, and this action apparently increased the competitiveness of the gallery.

Table 4 (also from the original study) displays the relative importance of adaptive strategic responses. The numbers in the last three columns are the percentages of the respondents that chose either “extensive attention,” “modest attention,” or “no attention.”

Table 4
*The Relative Importance of Adaptive Strategic Responses*

| Adaptive Response Variables | n | Extensive Attention 1 | Modest Attention 2 | No Attention 3 |
|---|---|---|---|---|
| Event Planning | 124 | 34% | 56% | 11% |
| Staff Management | 124 | 43% | 37% | 20% |
| Electronic Commerce | 123 | 27% | 52% | 20% |
| Upgrading Computer System | 124 | 14% | 45% | 41% |
| Marketing Gallery | 123 | 68% | 29% | 2% |
| Marketing Events | 124 | 48% | 44% | 8% |
| Financial Management | 124 | 48% | 47% | 6% |
| Inventory Management | 124 | 46% | 44% | 11% |
| Customer Service | 124 | 83% | 14% | 3% |
| Artist Relationships | 123 | 63% | 29% | 9% |
| Cultivating New Artists | 124 | 42% | 36% | 23% |
| Theft/Security Management | 124 | 12% | 54% | 34% |

| Adaptive Response Variables | n | Extensive Attention 1 | Modest Attention 2 | No Attention 3 |
|---|---|---|---|---|
| Event Planning | 124 | 34% | 56% | 11% |
| Staff Management | 124 | 43% | 37% | 20% |

[Note: Rows may not total to 100% due to rounding]
[The Table 4 is directly cited from Smith, Discenza and Baker's study in 2006]
Source: Based on Table 5 in Smith, Discenza and Baker (2006)'s study.

As galleries are in an increasingly competitive environment, gallery owners/ managers continue to emphasize adaptive responses (Smith, Discenza & Baker, 2006). Among these adaptive responses, the value of customer service (83%) is reported to have gained the most extensive attention and to be considered most important by the gallery owners/managers, followed by marketing the gallery (68%) and managing relationships with artists (63%). Another five adaptive responses were also targeted for increased attention in the coming year: financial management, marketing events, inventory management, staff management, and cultivating new artists (Smith, Discenza & Baker, 2006). The descriptive results show that most gallery owners/managers intend to use adaptive responses in order to deal with their competitive environment.

In general, Hypothesis 2 from the original study was not fully supported: No strong evidence showed that galleries experiencing decreasing sales were more likely to apply adaptive responses than those experiencing increasing sales. Some mixed support was found for Hypothesis 2 (Smith, Discenza & Baker, 2006). For example, art galleries with increasing sales were found to be more likely to give attention to event planning than galleries with decreased sales. Hypothesis 2 predicted that this adaptive strategy would be more likely to be implemented by galleries with decreasing sales.

The key to galleries applying adaptive responses was not that poor-performing galleries paid more attention to adjusting and changing than well-performing galleries, but that certain adaptive responses were undertaken irrespective of increasing sales or decreasing sales.

*Adaptive Responses in the Recent Environment*

The Internet emerged decades ago. Its rapid growth and the development of e-commerce have changed most industries revolutionarily, whereas the art market has taken a much slower path to embrace the Internet (Elkins, 2011). Art as a commodity is different from other commodities because of its high uncertainty. It is a critical quality that the value of "an artwork cannot be objectively determined "(Schonfeld & Reinstaller, 2007, p. 143). An artwork's value is subjective and relatively high. Purchasing art as an activity is always a decision that relates to the social value, aesthetic value, and personal preference. However, the Internet's influence is continuing to increase, and gallery owners gradually have found that the Internet is a useful tool in many ways. The Internet has become a necessary marketing tool (i.e., part of their strategy) (Queensberry & Sykes, 2008), and from galleries to museums, the devolopements in the Internet and how it can be used have motivated the art world to attempt to embrace the online experience (Gordon, 2012), especially for galleries at the low-end of the market.

The Internet has impacted the gallery business in its different sections. Most adaptive responses in the gallery business have been affected by the development of the Internet. The following part of the literature review considers the changes that the Internet has brought about; other adaptive responses are also discussed.

*How the Internet Has Gradually Changed Communications and Marketing*

Smith, Discenza and Baker (2006) stated that decades ago, when the Internet first emerged, art galleries tended to "continue to operate as though they exist in a cottage industry immune from driving forces such as high technology…" (p. 30).

There are many reasons why galleries were slower in utilizing new technology and online platforms. First, the size of the gallery's business has limited investing money and labor for building and running websites; many art galleries are small businesses with limited staff and budgets (Elkins, 2011). Second, art as a commodity differs from other commodities, is intrinsically unpredictable in its economic value, and in particular shares characteristics with credence, inspection, and experience (Prinz, Piening & Ehrmann, 2015). This means that art trading is part of a social event, a public contribution, and an investment (Prinz, Piening & Ehrmann, 2015). O'Meara (2013) explained, by referring to philosopher Walter Benjamin, that it seemingly is a universal tendency for people to elevate the experience of seeing an original work of art in person.

> Further constituting idiosyncrasy in the market, cultural goods have extremely limited objective or intrinsic value. They are unique objects which store symbolic meaning, and against the tenets of classical

> economics, there is emphasis placed on the process of creation, as opposed to economy and efficiency (O'Meara, 2013, p.7).

Up to this time, the online trading technology was in its infancy; however, galleries have taken a slow step to embrace the Internet and utilize it as a strategy. Now, with the technology much more advanced and mature, and with the consumers' attitudes to online trading more confident, galleries gradually have moved to online trading. The doubt and uncertainty of online galleries regarding the Internet have largely decreased, when compared to the year 2006. With online platforms' great strength, online galleries "could also prove to be a boon for diversifying customer bases [collector bases/ individual buyers]" (Locke, 2011, p. 4).

O'Meara states that the online gallery (or online art market) is gathering force. She introduced a statement from Scott D. Anthony about the trend of the online gallery business: "So, even though the art market is indeed growing in its current brick-and-mortar iteration, the trending entrance of startups that facilitate the buying, selling or discovery of art online, have raised over $228M of venture capital, points to a new impulse in the market" (O'Meara, 2013, p. 37).

To a certain degree, the Internet changes communication and marketing in the gallery business (O'Meara, 2013). "Though the online channel has become inseparable from operations of the market in terms of communication and marketing, sales have been slow to adapt to this transition in medium" (O'Meara, 2013, p. 10). Communication includes promotion methods and the way a gallery deals with its relationships with artists and buyers, while marketing includes inventory management and event planning.

A website is a powerful tool to promote a gallery. Galleries were often small local businesses, and buyers were mostly local collectors or visitors. Today, a gallery's website allows it to communicate with audiences from all over the world. On its website, a gallery's general information (open hours, location, history, and contact information) can be easily accessed whenever and wherever (Elkins, 2011). Also, current exhibitions can be better promoted through online platforms; indeed, some gallery websites have past exhibitions for visitors to review. For the artists that galleries represent and that have their artwork for sale, a website has no limitation on open hours and location range. Some gallery websites offer the option to subscribe to the gallery's news. In this way, compared to just advertising through flyers and banners, or invitation letters, their promotion of events can be to broader audiences and better directed to collectors. In many ways, the Internet makes communication more convenient and effective.

As for marketing, the Internet is also a powerful tool. Because displaying inventory (i.e., artwork) on websites is much more manageable and affordable than displaying it in physical spaces, it is "implied that virtual markets expanded customer bases across geographical boundaries and improved the flow of information between buyers and sellers…" (Locke, 2011, p.7). The Internet increases the turnover of inventories; it makes art trading more available to the public; "even Amazon has set its sight on the art market…[with] plans to partner with certain galleries to sell some of their inventory online…" (Schrager, 2013, p.2). Also, the Internet is particularly strong as a massive information resource, both to the gallery managers/owners and to buyers (or potential consumers). The Internet can be a helpful tool to build better understanding and to gain familiarity with the artwork on display (Gordon, 2011), and it can help "galleries use several techniques to reduce the uncertainty… [and provide] educational information to make consumers aware of specific features of good design, [and provide] artists' credentials…" (Marshall & Forrest, 2011, p. 118-119). With a better understanding of the artwork and artists, customers tend to be more likely to engage in a transaction. Thus, the Internet gives impetus for more sales.

*Additional Comments about Adaptive Responses*

Additional research indicates that there is significance in other responses that are crucial to a gallery's adaptive strategy and approach.

*Event Planning*. Another major development in a gallery's adaptive approaches is event planning. [Various forms of art events come to the stage of collectivization]..."[art] fairs, auctions, blockbuster exhibitions and biennials have become the de facto setting in which the market comes together, value is created and enforced, and buying and selling takes place" (O'Meara, 2013, p. 10). These art events have become alternative platforms for galleries to gain exposure and promote artists, sell artwork, meet new collectors, and build connections with other galleries and organizations. By hosting fairs, blockbuster exhibitions, or biennials, galleries are able to enhance their reputation, and a higher reputation. Artists benefit from the gallery's good reputation. Correspondingly, the artist's reputation reflects on the gallery's reputation. It is a correlative relationship (Schonfeld & Reinstaller, 2007).

Notably, "the number of art fairs has exploded over the past decade" (Gordon, 2011, p. 7), and online art fairs are particularly compatible with the activities of low-end galleries. They are not expensive to attend and not that complicated nor time-consuming, as exhibitors do not need to bring the artwork and travel long distances (O'Meara, 2013). Art fairs are affordable for both massive and small galleries. Also,"when [the] art market [is] struggling in the environment, gallerists were clinging to the success of the art fair to see them through difficult times" (Gordon, 2011, p. 8). Like the art fair, events are opportunities for gallery managers/owners to expand their market; art events are very likely to be "excellent platform[s] bridging art, economics, and aesthetics" (Gordon, 2011, p. 9). As a benefit to the sustainable success of the gallery, event planning has become extremely important in a gallery's strategic plan. "The art market changed and began to globalize and younger collectors emerged" (Gordon, 2011, p. 8).

*Customer Service and Targeting Buyers.* Customer service was reported as the most important adaptive response in Smith, Disenza, and Baker's study (2006). Customer service is about customer relationship management. "Royalty, satisfaction, and intention to repurchase are important constructs for art managers" (Colbert & St-James, 2014, p. 570). The reputation of a gallery is a critical element for them, and due to the business model, a gallery's reputation is likely to be made known by word of mouth. Satisfying the customer is very important. It can be enhanced by appropriate personal contacts, great after-sale service, providing sufficient information, and the layout or the physical/virtual gallery spaces. Customer service continues to be a necessary part of marketing.

Customer service is important to new (i.e., potential) customers, as well as to patrons (i.e., frequent buyers); targeting and selecting buyers are effective in promoting the gallery and in helping to build strong relationships with customers. People buy art for various reasons and motivations, and it is helpful in a gallery business to study and learn more about their targeted audience. It is helpful for galleries to be aware of newly-emerged collectors and to try to build relationships with them. Outside expert collectors, individuals and organizational buyers (with resources and available funds) have great potential to be part of the collector base (Clarke & Flaherty, 2002). In addition to just expanding the market/audience, it can be more effective for gallery owners/managers to discover the motivations that stimulate consumption of art, to make adjustments to promotional materials, and to emphasize different marketing strategies for key audiences (Lange, 2010; Thrash, 2011). Focusing on superior customer service for their best clients underlies the gallery's recognition of the importance of this small category of collectors.

*Website Maintenance:* Smith, Discenza, and Baker (2006) found that website maintenance was not a crucial factor in the adaptive approach at the time of their study. The situation is quite different now because customers expect functional and well-designed gallery websites. Also, "gallery websites should be constantly updated to reflect current exhibitions and art for sale" (Elkins, 2011, p.60). Due to their limited staff, most low-end galleries delegate the website design and maintenance tasks to other companies or they undertake it themselves. To the first situation, it is important to update the website frequently. To the second situation, it is critical to have strong design in each section of the website, deliver the aesthetic environment and experience, and "satisfy individual desires for the collectors" (Thrash, 2011, p. 66).

Adaptive responses mentioned in recent literature do not differ significantly from those in the Smith, Discenza, and Baker's study in 2006. However, advanced technologies afford more diversity and dynamics of the strategic tools, and these are specifically focused on while investigating the willingness of current gallery owners/ managers to apply adaptive approaches in the gallery business.

# Chapter 4

## Research Objectives

As discussed in the literature review chapter and later in the methodology chapter, variables examined in the original study have led to the following hypotheses about the "economic and technological driving forces affecting art galleries' success, change in performance, and strategic (adaptive) level responses" (Smith, Discenza & Baker, 2006, p. 31). With respect to galleries' historic cottage industry status, Smith, Discenza, and Baker (2006) developed two hypotheses as their research objectives; the current study continues to examine these two hypotheses, which are listed below.

> H1: Art gallery owners and managers will not perceive that driving forces have an extensive impact on their firms' success, and their perceptions (of driving forces) are not related to changes in performance.
>
> H2: Art galleries with poor performance will be more likely to implement adaptive strategic responses in an effort to build better performance and long-run business.
>
> (Smith, Discenza and Baker, 2006, p. 31)

# Chapter 5

## Methodology

In conducting the research, this study follows the original study's approach. The original study used a survey as the research instrument in accordance with terms which were defined by art professionals. Their survey was sent out by mail to industry-identified galleries in Colorado; the survey got a response rate of approximately 20%. In analysis, the researchers of the original study categorized their questions into five sets, used a t-value test to examine their hypothesis, and represented their data in tables. Their results identified "gallery characteristics, owner/manager characteristics, driving forces affecting gallery success in the prior two years, strategic responses that should receive attention in the coming year and recent percentage changes in performance" (Smith, Discenza & Baker, p. 32).

This section proves a detailed description of the methodology of this research including subjects of the study, the design of the research and the limitations. This approach of the methodology is similar in design to the original study; differeness from the original study are noted in the following chapters.

## Subject of the Study

Using a similar method to the one in the original study, the current study set up the scope of the sample selection as fine art galleries in upstate New York. As explained in the previous chapters, there are some similarities of these two areas (Colorado, and upstate New York) that enable the current study to replicate the original study of Smith, Discenza, and Baker (2006) in a different geographical place. In addition, for the purpose of the study, a "gallery" in the current study is defined as a secondary gallery, which is located in a non-capital region and is a relatively small business. These galleries mainly face to the local audiences, and most artworks are provided directly from artists. Non-profit organizations, university galleries, and frame shops are not included in this study because they do not satisfying these criteria.

A list of about 150 private art galleries was created by using a research engine and art industry websites (such as Google and art-collecting.com); the list also included qualified artists' studios (those which have a physical location, sell artwork, and especially have cooperation with other artists) as part of the sample. Because some galleries did not have a website or did not ensure the accuracy of their information on their websites, the sample size was reduced.

## Research Design

The research was conducted through investigation by using a survey (Appendix A). There were questions about galleries' fiscal changes, gallery owners/managers' ratings of driving forces, and their willingness to apply adaptive responses. An independent samples t-test was used to analyze data as the original study had done.

*Identification of Driving Forces and Adaptive Responses*

The terms driving forces and adaptive strategies in the current study were the same as they were in the Smith, Discenza, and Baker (2006) study, which were defined in the original study's pre-test research instrument. Table 5 lists the variables.

Table 5
*Driving Forces and Adaptive Responses*

| Driving Forces | Adaptive Responses |
|---|---|
| State Promotion of Colorado | Event Planning |
| State of Economy | Staff Management |
| Business Taxes/Fees | Electronic Commerce |
| Community Involvement | Upgrading Computer System |
| Discretionary Spending | Marketing Gallery |
| Competition | Marketing Events |
| Marketing Gallery via Advertising | Financial Management |
| Community Involvement | Inventory Management |
| Gallery Donations | Customer Service |
| Tourism | Artist Relationships |
| Discretionary Spending | Cultivating New Artists |
| Supply of Art | Adaptive Responses |
| Reliability of Artists | Theft/Security Management |
| Web Competition | |
| Proximity to Galleries | |
| Marketing Gallery via Web | |

*Survey Distribution*

Gallery names in the sample list were examined to determine if there was any gallery which could not be identified, or whether a phone call or personal visit might be useful in helping to establish an accurate list.

The survey was distributed by email. To encourage an acceptable response rate, an invitation letter was sent to the respondents before they received the link to the online survey, and a second "nudge letter" was sent a couple of days after they received the survey if there was no response.

*Data Collection and Data Analysis*

Participants were asked to complete the survey in which questions were categorized into five sets: (1) gallery characteristics, (2) gallery owner/manager characteristics, (3) changes in percentage of fiscal performance comparing the prior two fiscal years, (4) driving forces affecting gallery performance, and (5) owners/managers' willingness to devote attention to each adaptive response in the coming fiscal year.

Smith, Discenza, and Baker (2006) used a t-test to examined their hypotheses: (1) "art gallery owners and managers will not perceive that driving forces have an extensive impact on their firms' success, and their perceptions of driving forces are not related to changes in performance"; and (2) "art galleries with poor performance will be more likely to implement adaptive strategic responses in an effort to build better performance and long-run sustainable value." (p. 31). In order to process the analysis, they grouped participants by the changes in sales: (1) galleries with increased sales and (2) galleries with decreased sales, comparing the two most recent fiscal years.

They asked participants to rate the effect of driving forces from 1= very limited extent to 5 = very great extent, and the degree of their attention to the adaptive responses from 1= extensive attention to 3 = no attention.

The t-test was used to examine the relationship between their ratings and their performance changes. The t-test is an appropriate statistical method when comparing two groups' means (Anderson, Sweeney, Williams, Camm & Cochran, 2012), and it was run for all the performance indicators in Smith, Discenza, and Baker (2006)'s study. Analysis was based on the reported statistical probability value, thus to support or not support the hypotheses.

The current study uses these two hypotheses and t-test to perform the analysis. This replication allows the researcher to compare the results with the Smith, Discenza and Baker (2006) study.

**Limitation**

The current study had a low response rate, and thus the accuracy of the results may have dropped significantly. Also when participants were asked to rate their galleries' changes in fiscal performance, it was clear that the choice of "no changes" (an option in the survey) was frequently selected. This frequency may have resulted from a lack of clear criteria for discerning one choice from another.

# Chapter 6

# Results

This chapter presents descriptive statistics and t-test results of study variables (driving forces and adaptive responses), along with textual comments to explain key observable variables. Also, a comparison of related variables between results from the original study and the current study is presented, in order to note changes that have occurred in the past decade.

## Descriptive Statistics for Research Variables

For the current survey, 194 emails with the survey link were sent to targeted invitees. Then the gallery list was modified by eliminating invitees who were not willing to participate and who stated their business did not meet the study's standard of a gallery. Among these emails, there were probably a certain number that might have been filtered into spam email folders, and thus were not received and opened by the gallery owner/manager. In total, 24 valid responses were collected: 11 respondents answered after receiving the first email, and another 11 answered after receiving the "nudge" email after 2 weeks. Another 2 responses were collected by physical visits to galleries. This resulted in a response rate of about 12.4%.

Table 6 presents demographic characteristics of private commercial galleries in upstate New York that are included in this study. The average number of artists represented by a gallery is 39, and the average number of artists exclusively represented is 9. Both of these numbers are close to the numbers identified in the original study of Colorado galleries. The average retail price for an art piece in the current study is $514, and a gallery maintains an average of 253 pieces of artwork in stock; these numbers are lower than those in the original study, $894.55 and 633 pieces respectively. Eighty-six percent of the artwork pieces in inventory are on consignment, which is much higher than the 57% in the original study. The average number of years that a gallery has been in operation is 9.2 years, which is relatively close to the original study's 13 years.

Table 6
*Descriptive Statistics for Research Variables*

| Gallery Characteristics | N | Mean | SD |
|---|---|---|---|
| # of artists | 16 | 39 | 30 |
| # of artists exclusively | 7 | 9 | 12 |
| average retail | 21 | $514 | $711.46 |
| years in operation | 24 | 9.2 | 9.8 |
| # works in stock | 15 | 253 | 399 |
| % inventory on consignment | 15 | 86% | 27.74% |

| Respondent Titles | n | % | |
|---|---|---|---|
| Owner | 13 | 54% | |
| Manager | 4 | 17% | |
| Assistant | 1 | 4% | |
| Other | 6 | 25% | |

| Respondent Characteristics | N | Mean | SD |
|---|---|---|---|
| # of years at this gallery | 24 | 6 | 10.4 |
| # years in art gallery business | 23 | 11.4 | 10.9 |

| Type of Art Primarily Carried | n | % |
|---|---|---|
| Avant Garde/Contemporary | 10 | 38.5% |
| Modern | 4 | 15.4% |
| Regional | 8 | 30.8% |
| Ethnic | 1 | 3.8% |
| Eclectic | 2 | 7.7% |
| European | 1 | 3.8% |

* Percentages may not total to 100% due to rounding
* Judgment was used to categorize a few unique answers given by respondents when specified different categorization, because galleries could check more than one answers, so the sample size is N=26

When asked to choose the type of art the gallery carries, some respondents reported more than one type; they checked the "Other" option in the survey because only single option choices were provided in the survey. When processing the survey answers, the researcher divided and categorized the multiple responses in the "Other" selection into the specific options listed in the survey. Some modifications were made in the terms from the original study: "Southwestern" was replaced by "Regional," and a "Modern" option was added in the current study. The most popular art type identified in the current study, carried by private commercial galleries in upstate New York, is "Avant Grade/Contemporary," which had ten responses, accounting for 38.5% of the total responses. The second most popular art type is "Regional," with eight responses, accounting for 30.8%, followed by "Modern" with four responses, "Eclectic" with two responses, and finally by "Ethnic" and "European" with one response each. Fifty-four percent of the respondents reported as being gallery owners; 17% as gallery managers; 4% as gallery assistants; and 25% as "Other," which was defined as "partner, director, etc." The average number of years they worked in their gallery was 6 years, and the average number of years of their career in the gallery business was 11.4 years.

Because the difficulty of getting an exact number for fiscal changes was deemed likely to negatively affect the response rate, this survey only asked whether a gallery had increased or decreased fiscal changes, comparing the most recent complete fiscal year with its preceding year. Therefore, the current study did not have a t-test to compare with the t-test in the original study concerning fiscal performance. With regard to Tables 7 and 8, it should be noted that no standard was given in the survey about the definition for the "No Change" option; thus, the standard for "No Change" was based solely on the respondents' opinions of what "No Change" meant.

As shown in Table 7, six galleries (25% of the respondents) reported increased sales over the prior fiscal year, 7 galleries (29% of the respondents) reported decreased sales. An important response was that 37.5% of the respondents showed an increase in the number of clients, and 33.3% showed an increase in marketing and advertising expenses. However, 37.5% showed a decrease in net income. Generally, the fiscal results of the current study were not as favorable as in the original study, but other than net income and employee expenses, the percentages in each category of Table 7 were higher for galleries with increased sales.

Two fiscal factors had the highest percentage of "No Change" option in both studies and are considered to be relatively stable. About 87% of respondents indicated that costs of upgrading computer systems/software remained the same as in the prior fiscal year, and about 83% of respondents indicated costs for maintaining web/internet had no change. The percentages of these two factors in the original study were 64.3% and 63%.

Table 7
*Changes in Performance from Prior Fiscal Year*

| Measure | Increase | n | Decrease | n | No Change | n | Total |
|---|---|---|---|---|---|---|---|
| Total Sales | 25% | 6 | 29% | 7 | 46% | 11 | 24 |
| Net Income | 20.83% | 5 | 37.50% | 9 | 41.67% | 10 | 24 |
| Number of Clients/Customers | 37.50% | 9 | 16.67% | 4 | 45.83% | 11 | 24 |
| Computer Software & Equipment Costs | 13.04% | 3 | 0.00% | 0 | 86.96% | 20 | 23 |
| Web/Internet Costs | 13.04% | 3 | 4.35% | 1 | 82.61% | 19 | 23 |
| Marketing and Advertising Expenses | 33.33% | 8 | 16.67% | 4 | 50.00% | 12 | 24 |
| Employee Expenses | 13.04% | 3 | 13.04% | 3 | 73.91% | 17 | 23 |

N/A answers are not included in the analysis
In total sales calculation, there are three answers missing
A lower case "n" means number of a sub group's population within the whole population of 23 or 24 depending on responses

In Table 8, the responses are separated into two groups: those galleries that reported increased sales over the prior year and those that reported decreased sales. Then, the percentages *within each group* were calculated for the same factors that appeared in Table 7 for the overall study. Two factors stand out: the net income factor and the number of clients/customers factor. Net income increased for 83% of the galleries that had an increase in sales, and net income decreased for 86% of the galleries that had a decrease in sales. For the number of clients/customers, 83% of the galleries with increased sales reported an increase in clients/customers, while 43% of the galleries with decreased sales reported a decrease in the number of clients/customers along with 57% that reported no change in this factor.

Nearly a half of both the increased sales group and decreased sales group reported an increase in marketing and advertising expenses; the increased sales group (50%) reported somewhat higher than the decreased sales group (43%).

Table 8
*Changes in Performance from Prior Fiscal Year Comparing Group Reported Increased Sales with Group Reported Decrease Sales*

| * | Increased Group | | | | Decreased Group | | | |
|---|---|---|---|---|---|---|---|---|
| ** | ↑ | ↓ | - | N | ↑ | ↓ | - | N |
| Net Income | 83% | 17% | 0% | 6 | 0% | 86% | 14% | 7 |
| Number of Clients/Customers | 83% | 17% | 0% | 6 | 0% | 43% | 57% | 7 |
| Software & Equipment Costs | 20% | 0% | 80% | 5 | 0% | 0% | 100% | 7 |
| Web/Internet Costs | 20% | 0% | 80% | 5 | 14% | 0% | 86% | 7 |
| Marketing and Ad Expenses | 50% | 17% | 33% | 6 | 43% | 14% | 43% | 7 |
| Employee Expenses | 20% | 0% | 80% | 5 | 14% | 14% | 71% | 7 |

* "Increased Group" includes only those respondents indicating an increase in "Total Sales" over the past fiscal year, while "Decreased Group" are those indicating a decrease in "Total Sales"
**"↑" means increase, "↓" means decrease, and "-" means no change
The percentage numbers identify percent of responses within each group
Percentages may not add up to 100% due to rounding.
In some factors the sample size is 5 due to these factors not being applicable for every respondent.

**Variables for Driving Forces**

In this section, the results of examining the driving forces in the current study are represented in Tables 9 and 10 and in Figures 1 and 2. A comparison of significant results that occurred in this current study and in the original study appears in a subsequent section.

*Results from the Current Study*

Table 9 presents the ratings for each driving force, with its average Likert rating, determined from all survey responses, along with the standard deviation. Marketing via web (social media) and the state of the economy were perceived to have the highest average rating of 3.38, followed by discretionary spending (3.21) and tourism (2.92). Competition from other galleries had a low average rating (1.67), and thus this second–to-the-last variable was perceived to have a very low impact on gallery business; business taxes and fees had the lowest mean (1.63).

Table 10 shows the independent sample t-test results in which galleries with increased sales over the prior fiscal year were compared with galleries that had decreased sales over the prior fiscal year on a number of variables, defined as either driving forces or adaptive responses.

Table 9

*The Amount of Driving Forces Effecting Gallery's Business in the Prior Fiscal Year*

| | | Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent | | |
|---|---|---|---|---|---|---|---|---|
| | n | 1 | 2 | 3 | 4 | 5 | Mean | SD |
| Competition from Other Galleries | 24 | 15 | 3 | 5 | 1 | 0 | 1.67 | 0.96 |
| Proximity to Other Galleries | 24 | 10 | 2 | 8 | 4 | 0 | 2.25 | 1.19 |
| Competition from Web/Internet Sales | 24 | 10 | 5 | 6 | 3 | 0 | 2.08 | 1.10 |
| Tourism and Visitors to the Destination | 24 | 5 | 3 | 7 | 7 | 2 | 2.92 | 1.28 |
| State Promotion/ County Promotion | 24 | 12 | 3 | 7 | 1 | 1 | 2.00 | 1.18 |
| Marketing Gallery via Web (Social Media) | 24 | 1 | 4 | 7 | 9 | 3 | 3.38 | 1.06 |
| Marketing Gallery via Advertising | 24 | 6 | 5 | 8 | 2 | 3 | 2.63 | 1.31 |
| Supply of Marketable Art | 24 | 10 | 4 | 5 | 1 | 4 | 2.38 | 1.50 |
| Reliability of Artists and Art Suppliers | 24 | 10 | 4 | 4 | 2 | 4 | 2.42 | 1.53 |
| State of the Economy | 24 | 4 | 1 | 7 | 6 | 6 | 3.38 | 1.38 |
| Discretionary Consumer Spending | 24 | 5 | 1 | 7 | 6 | 5 | 3.21 | 1.41 |
| Business Taxes/ Fees | 24 | 15 | 4 | 4 | 1 | 0 | 1.63 | 0.92 |
| Involvement in the Community (Boards) | 24 | 7 | 4 | 7 | 3 | 3 | 2.63 | 1.38 |

*Includes input from all respondents
*Likert scale ratings from 1 (Extensive Attention) to 3 (No Attention)

Table 10
*T-test on Study Variables Comparing Respondents that Reported Sales Increases with Respondents that Report Sales Decreases*

| | Increased Sales | Decreased Sales | t value | Probability |
|---|---|---|---|---|
| Driving Forces | | | | |
| Competition from Other Galleries | 1.83 | 1.86 | 0.04 | 0.97 |
| Proximity to Other Galleries/Museums | 2.50 | 1.57 | 1.42 | 0.18 |
| Competition from Web/Internet Sales | 2.00 | 1.43 | 1.09 | 0.30 |
| Tourism and Visitors to the Destination | 2.67 | 2.86 | 0.25 | 0.81 |
| State Promotion/ County Promotion | 2.00 | 2.00 | 0.0 | 1.00 |
| Marketing Gallery via Web (Social Media) | 4.00 | 2.57 | 2.73 | 0.02 |
| Marketing Gallery via Advertising | 3.00 | 2.71 | 0.35 | 0.73 |
| Supply of Art | 3.33 | 2.14 | 1.66 | 0.12 |
| Reliability of Artists and Art Suppliers | 3.00 | 2.43 | 0.70 | 0.50 |
| State of the Economy | 3.67 | 3.71 | 0.09 | 0.93 |
| Discretionary Consumer Spending | 3.67 | 3.14 | 0.83 | 0.42 |
| Business Taxes/ Fees | 2.00 | 1.71 | 0.47 | 0.65 |
| Involvement in the Community (Boards) | 2.67 | 2.14 | 0.66 | 0.52 |

*Scaling for driving forces: 1=very limited extent; 5 = very great extent

Table 10 (cont.)

*T-test on Study Variables Comparing Respondents that Reported Sales Increases with Respondents that Report Sales Decreases*

| | Increased Sales | Decreased Sales | t value | Probability |
|---|---|---|---|---|
| Adaptive Responses | | | | |
| Personnel/ Staff Management | 2.83 | 2.17 | 2.83 | 0.02 |
| Electronic Commerce | 1.50 | 2.50 | 3.16 | 0.01 |
| Upgrading Computer Systems/Software | 2.50 | 3.00 | 2.24 | 0.049 |
| Marketing the Gallery via Web | 1.33 | 2.00 | 1.58 | 0.14 |
| Marketing Specific Events and Artists | 1.50 | 1.50 | 0 | 1.00 |
| Marketing Gallery via Advertising | 2.00 | 1.50 | 1.46 | 0.17 |
| Financial Management | 2.17 | 1.67 | 0.96 | 0.36 |
| Customer Service | 1.83 | 1.50 | 0.73 | 0.48 |
| Continuing Artist Relations | 1.50 | 1.67 | 0.54 | 0.60 |
| Cultivating New Artists | 1.67 | 1.83 | 0.45 | 0.66 |
| Theft/ Security Management | 2.67 | 2.50 | 0.54 | 0.60 |

*Scaling for adaptive responses: 1=extensive attention; 3=no attention

Among the driving forces, the variable, marketing gallery via web (social media), shows a probability of $p = 0.02$ that suggests a significant difference in the perceptions of this variable between the two groups. The mean value of the increased sales group was 4.0, while that of the decreased sales group was 2.57, which indicates that the increased sales group rated it as having “great extent” in its applicability to gallery operations.

Respondents were also asked to choose the most positive or negative force that they perceived as having impacted their galleries in the prior two years. Figure 1 shows that the driving force perceived as having the most positive impact was tourism, followed by the two driving forces, marketing via advertising and discretionary spending. Figure 2 shows that the state of the economy was the driving force perceived as having the most negative impact on their business.

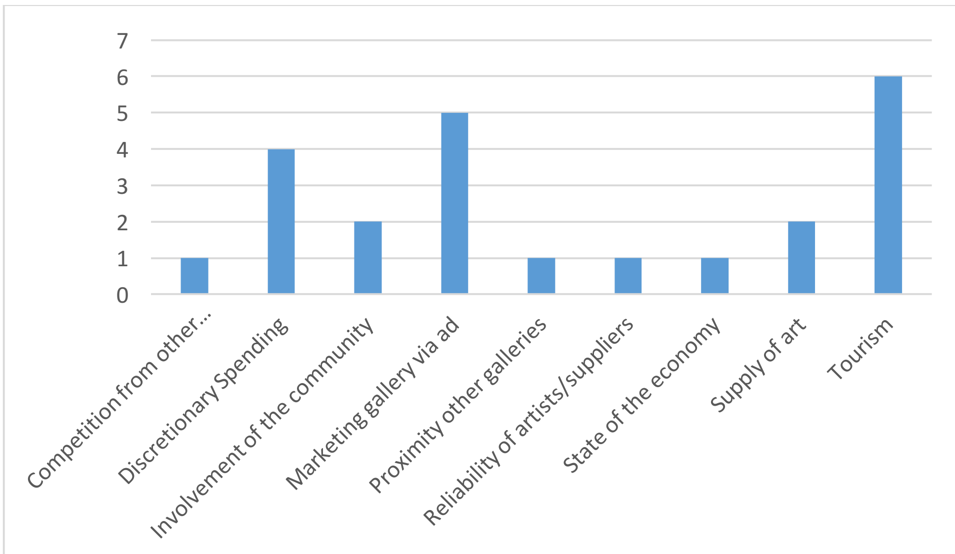


*Figure 1.* Most positive single force impact on gallery business in the past two years.

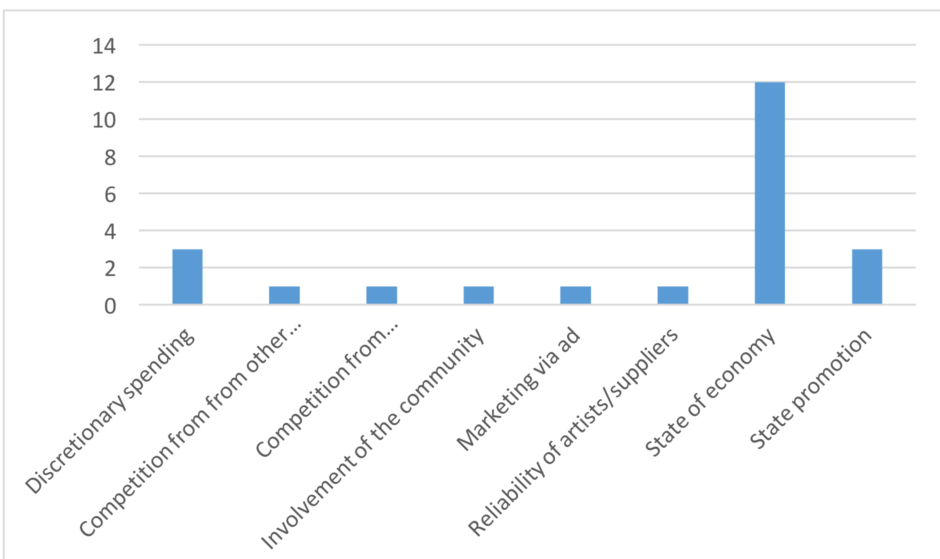


*Figure 2.* The most negative single force impact on gallery business in the past two years.

*Driving Forces: Comparison of Current Study with Original Study*

The current study shows only one statistical difference in the perceptions of the driving forces between those with increased sales and those with decreased sales; the original study showed no statistically significant variables at $p = 0.05$. There are similarities between the two studies in the driving forces that received the highest average ratings. Discretionary spending was perceived to have the most impact in the original study (mean = 4.0), which was the third highest driving force in the current study (mean = 3.21). The second highest rated driving force in the original study was state of economy, which also is one of the highest-rated driving forces in the current study (3.38). The reliability of artists/suppliers was perceived as the third most influential driving force (3.5) in the original study, while in the current study, this driving force was rated at 2.42. Similarly, tourism was rated 3.7 in the original study, but only 2.92, or fourth, in the current study. Marketing via web (social media) was perceived to have the most impact in the current study with a rating of 3.38; however, in the original study the rating was 2.9.

In both the current study and the original study, tourism was identified to be the driving force perceived to be the most positive force (30% and 26%), and discretionary spending was identified as the second most positive force in the original study (17%) and third most positive force in the current study (17%). The same situation occurred with regard to the most negative force. Both in the original study and in the current study, the state of the economy was ranked first (52% in both studies) as the most negative force, and discretionary spending ranked second (18% in the original study and 13% in the current study).

## Adaptive Responses

In this section, Table 11 presents data regarding the perceived adaptive responses by owners/manages in terms of the attention they plan to give each adaptive response. A comparison with the original study again ends this section.

### *Results from the Current Study*

Table 11 presents the perception ratings for all respondents for each response, along with its standard deviation. Because of the Likert scale used, the lower mean (average rating) represents a higher willingness for respondents to undertake the adaptive response in the next year. Marketing specific events and artists had the lowest rating (1.37) and was thus shown to most likely receive the greatest attention, followed by continuing artists' relationship (1.42). No respondent indicated that they perceived giving no attention to these two adaptive responses: Upgrading computer systems/software (2.63) and theft/security management (2.56), received the highest rating and least attention.

Table 11, which presents the t-test results for adaptive responses, shows that there were some significant differences in the perceptions of owner/managers of galleries with increased sales versus those with decreased sales. In the variable, personnel/staff management ($p = 0.02$), the increased sales group indicated less willingness (2.83) to undertake this adaptive response than did the decreased group (2.17). Also significant (p = 0.01) is that the increased sales group also showed a higher attention to electronic commerce (1.5) than did the decreased sales group (2.50), and a higher attention (2.50) to upgrading computer systems/software (p= 0.049) than did the decreased sales group (3.00).

Table 11
*The Amount of Attention and Relative Importance of Adaptive Strategic Response for Next Year*

| | | **Extensive Attention** | **Modest Attention** | **No Attention** | | |
|---|---|---|---|---|---|---|
| | **n** | **1** | **2** | **3** | **Mean** | **SD** |
| Personnel/ Staff Management | 22 | 5 | 8 | 9 | 2.27 | 0.80 |
| Electronic Commerce | 22 | 8 | 10 | 4 | 1.87 | 0.73 |
| Upgrading Computer Systems/Software | 22 | 0 | 9 | 13 | 2.63 | 0.50 |
| Marketing the Gallery via Web | 22 | 12 | 8 | 2 | 1.58 | 0.67 |
| Marketing Specific Events and Artists | 22 | 15 | 7 | 0 | 1.37 | 0.48 |
| Marketing Gallery via Advertising | 22 | 5 | 15 | 2 | 1.83 | 0.56 |
| Financial Management | 22 | 10 | 6 | 6 | 1.84 | 0.85 |
| Customer Service | 22 | 12 | 6 | 4 | 1.64 | 0.79 |
| Continuing Artist Relations | 22 | 14 | 8 | 0 | 1.42 | 0.49 |
| Cultivating New Artists | 22 | 11 | 9 | 2 | 1.63 | 0.67 |
| Theft/ Security Management | 22 | 1 | 8 | 13 | 2.56 | 0.60 |

*Includes input from all respondents
*Likert scale ratings for adaptive strategic response: 1=extensive attention; 3= no attention

*Adaptive Responses: Comparison of Current Study with Original Study*

In the original study, 83% of respondents indicated that customer service had the most extensive attention (mean = 1.2; lower score means more attention), and customer service was perceived to have the most attention in the future. In the current study, customer service is ranked fourth with a mean score of 1.64. The top four adaptive responses in the original study and in the current study are the same; yet, the order is different. The three additional adaptive responses in the top four are: marketing gallery via web (original study = 1.4, current study = 1.58); marketing specific events/artists (original study = 1.6, current study = 1.37); and continuing artists' relations (original study = 1.5, current study = 1.42).

# Chapter 7

## Analysis and Discussion

This chapter discusses and analyzes the results presented in Chapter 6. To a degree, the current study's results have both similarities and dissimilarities with the original study. The current results and comparisons seem to imply that galleries are still in a relatively complex context, although some changes are occurring in this industry.

### Driving Forces and Performance

Concerning Hypothesis 1 in the original and thus in the current study,

> H1: Art gallery owners and managers will not perceive that driving forces have an extensive impact on their firms' success, and their perceptions (of driving forces) are not related to changes in performance,
>
> (Smith, Discenza and Baker, 2006, p. 31)

only one statistically significant driving force was found ($p = 0.02$) in the current study; no statistically significant driving force was found in the original study. In the current study, marketing gallery via web (social media) was found for galleries with increased sales to be statistically different from those with decreased sales. This seems to imply that marketing gallery via web (social media) may have a positive impact on the gallery's fiscal performance. Thus, in this case, Hypothesis 1 is rejected in terms of driving forces.

Although one driving force variable resulted in a rejection of Hypothesis 1, the t-test showed that all other driving force variables support Hypothesis 1: that art gallery owners/managers, of those galleries that have increased sales and those that have decreased sales, do not perceive that these forces are related to changes in fiscal performance.

When the descriptive statistics related to the driving forces are analyzed for all respondents, it is shown that the competition-related forces (such as competition from other galleries, the proximity to other galleries, and competition from web/Internet sales) all received a rating below the 2.5 (Table 9) average rating, thus indicating that they are not readily perceived to have an extensive impact on performance.

Both marketing gallery via web (social media) with a mean of 3.38 and marketing via advertising with a mean of 2.63, representing all respondents, were above the average, thus indicating that the bargaining power of buyers appears to have a relatively strong impact on gallery owners' perceptions. Tourism/visitors to the destination and discretionary consumer spending both had a relatively higher rating among all the driving forces and had relatively high averages among the driving forces (2.92 and 3.21), suggesting again that buyers' bargaining power impacts the owners' perceptions.

As to the state of economy, this driving force had a rating of 3.38 (Table 10), indicating that owners perceived it as having an impact on fiscal performance, and 52%

of respondents indicated that this driving force was perceived *as potentially* having the most negative impact on gallery performance.

The current study suggests that gallery owners may not consider the external environment as having a great impact on their gallery business, but they consider it to have some impact. Driving forces perceived as favorable to performance are tourism, discretionary spending, and marketing.

Descriptive statistics analysis in the current study is similar to that of the original study. Discretionary spending (4.0) and tourism (3.7) in the original study are 3.21 and 2.92, respectively, in the current study (Table 9), thus indicating that the bargaining power of buyers was and continues to be perceived as important to gallery owners/managers. The original study also reported that the reliability of artists/art suppliers (3.5) was perceived to have an impact on gallery success; the current study (2.42) did not strongly support this variable as being perceived as affecting gallery performance.

The original study seemed to expect that the Internet would continue to grow as a marketing vehicle; however, the data did not support this (2.3) at that time. The current study now shows strong support in this area (3.38).

**Adaptive Responses and Performance**

A comparison of data about adaptive responses shows that galleries that reported increased total sales also reported increased net income and an increased number of clients (Table 6), in both studies. Galleries that reported a decrease in total sales experienced a decrease in net income and in the number of clients/customers, again in both studies.

With respect to the Hypothesis 2, in the original and thus in the current study,

> H2: Art galleries with poor performance will be more likely to implement adaptive strategic responses in an effort to build better performance and long-run sustainable value,
>
> (Smith, Discenza and Baker, 2006, p. 31)

the adaptive response variable in the current study, electronic commerce, with $p = 0.01$ indicates a significant difference between galleries with increased sales and those with decreased sales, with those galleries with increased sales indicating greater attention to this response. This may suggest that, in the past, they became aware of the need for this adaptive response and are now reaping its rewards (Smith, Discenza and Baker, 2006). In the current study, Hypothesis 2 is also not supported by the results for the variable upgrading computer systems/software, which again shows a significt difference, $p = 0.049$, with galleries with increased sales devoting more attention to this response than galleries with decreased sales. (With a p value equal to 0.049, some may caution placing too much emphasis on this difference.) The variable electronic commerce is reported with a p value equal to 0.01, suggesting that galleries with increased sales devote more attention (1.50) to applying this adaptive response than do galleries that reported decreased sales (2.50). However, Hypothesis 2 is supported by the result for personal/staff management that indicates a significant difference, $p = 0.02$, between those galleries with increased sales and those with decreased sales; those with decreased sales devoted more attention to this adaptive response. It can be assumed that personal/staff management is a strategic response intended to deal with sustainable fiscal performance.

When descriptive statistics are examined for the combined group of those with increased sales and those with decreased sales in the current study, marketing via specific events and artists (1.37), continuing artists' relationships (1.42), marketing the gallery via web (1.58), and customer service (1.64) are shown to receive the most attention among all the adaptive responses.

The original study found that respondents "clearly express[ed] the intention to implement adaptive responses in customer service, marketing and managing artists' relationships" (Smith, Discenza & Baker, 2006, p. 39). In the current study, although the strength of the intentions varies from the original study, these same adaptive responses continued to be important, even critical, to gallery owners/managers.

## Concluding Comments

As the original study states, the gallery business "possesses characteristics of a cottage industry" (Smith, Discenza & Baker, 2006, p. 38), and, as such, tends to ignore or diminish the significance of external competition. Despite this intrinsic resistance to the competitive external environment, external driving forces continue to impact the performance of the gallery. In order to deal with the external environment, gallery owners/managers need to recognize that some adaptive responses are critical to the gallery's sustainable and long-term successful performance. A major difference between the results of the original study and those of the current study is the recognition that the Internet has a significant influence on the gallery business by enabling the gallery to operate effectively in the digital environment. Other differences between the results of the two studies could be attributable to the ongoing forces and trends at work in this industry.

**Additional Selected Summary Comments**

The following comments are based on responses to the current study and to the original study, and they are intended to highlight selected portions of the studies.

- When respondents were asked to specifically indentify (not on a Likert scale) the most positive driving force for their galley business in the past two years, they identified tourism. When they were asked to specifically identify (again, not on a Likert scale) the most negative driving force in the past two years, they identified the state of the economy. On a Likert scale from 1 to 5 (very limited extent to very great extent), the average score for tourism was 2.92, and the average score for the state of the economy was 3.38, the highest score among the driving forces. Both scores indicate that gallery owners/managers perceived tourism and the state of the economy as being strong factors affecting their gallery business, but the specific selection of these two factors emphasizes the significance these two factors have in the perceptions of gallery owners/managers.

- As would be expected, the perceptions of gallery owners/managers concerning the ability to market their galleries via the web increased from a 2.3 (on the 5-stage Likert scale) in the original survey to a 3.38 in the current study. These numbers indicate that the perceptions of owners/managers with regard to the use of the web appear to have become more positive.

- The highest Likert rating (5-stage scale) of a driving force in the original study for discretionary consumer spending was a 4, the highest of all ratings given to the driving forces. In the current study, discretionary consumer spending was rated at 3.21, the third highest rating. It appears that owners/managers now perceive at least two other factors as having greater effect on the success of their galleries: marketing gallery via the web and the state of the economy.

**Limitations of the Current Study**

The current study exhibits the following limitations:

- The small sample size prevents the opportunity to generalize to the population of upstate New York galleries and to draw conclusive comparisons between Colorado and New York galleries.

- In an effort to make the survey easier for respondents, exact percentage increases or decreases for questions about fiscal change (e.g., net income, web/Internet costs) were not requested of respondents. Rather, the current survey only asked if the gallery experienced an increase, decrease, or no change in these factors.

- Event planning as an adaptive response was inadvertently not included in the current survey.

- The variable, marketing gallery via web, in the original study was expanded to marketing gallery via web (social media) in the current study. This decision was made for the purpose of reminding respondents that social media is considered as a way of marketing the gallery via web in the survey; this decision may have influenced the comparison results.

- It would be helpful to modify the Likert scale used to measure the attention likely to be devoted to each adaptive response, making the survey response more intuitively understandable (i.e., more attention is represented by a higher number).

- It would be more helpful to give a definition of each variable, or give examples, thus allowing respondents to answer the questions more easily and with more accuracy.

**Suggestions for Future Research**

The following ideas are put forth as areas for possible future investigation:

- Conduct another replication with a sample size that allows for drawing definitive conclusions and making generalizations about the population.
- Conduct separate similar studies in different geographic areas, and then contrast and compare the gallery operations.
- Conduct an in-depth research study on the inefficiencies in the gallery operations and markets.
- Conduct a study to determine the impact that the Internet is having on the gallery business and to better determine the level of commitment of gallery owners/managers to its use.
- Conduct a study that refines adaptive response (i.e., marketing gallery via advertising can be refined to marketing gallery via newspaper advertisements, marketing gallery via brochures, marketing gallery via posting advertisements in public areas, or marketing gallery via putting advertisements in collaborating shops).

- Examine the changes that occur in the gallery business, especially changes in revenue (sales), net income, and the number of clients/customers, to try to determine whether one of these can be identified as “the” factor that most correlates with sustainable gallery operations.

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## Appendix A

## Survey

Dear Respondent,

Thank you for your interest in this survey.

This survey is going to be used in the research of my final thesis. This study is a replication of a research work that studied Colorado galleries in 2006. Its purpose is to examine external (environmental) factors and adaptive strategies of fine art galleries in second-tier art market.

In the survey, you will be asked to answer questions about the following:
1. basic information about your gallery
2. fiscal changes in prior years (no actual revenue numbers needed)
3. your ratings of environmental factors that impact your gallery's success
4. your willingness to take adaptive strategies in the future.

This online survey will collect all your responses; only the researcher will have the access to the original responses. All your answers will be kept strictly confidential and will be used only for scholarly purposes. The published study will present aggregated data and will not include any specific information about your gallery.

The survey will take approximately 15 minutes to complete. Participation is strictly voluntary, and you may refuse to participate at any time.

Your participation helps me in my educational endeavors. The data collected will provide useful information regarding strategies applied in small art galleries. If you would like an executive summary of this study, please enter your email address at the end of the survey.

Please use the following contact information if you have any further questions.     Thank you!

Sincerely,
Yingtong Bu
Print Media Program
College of Imaging Arts and Sciences
Rochester Institute of Technology
Email: yb3686@g.rit.edu, bobbeido@gmail.com
Phone: (585) 978-5434

**Informed Consent:**
Your informed consent is requested by which you acknowledge the purpose of the study, the potential risk of taking the study, the time it is likely to complete the survey, and that your information will be kept secure and confidential.
☐ Yes, I agree and wish to continue (Continue to the survey)
☐ No, I do not wish to continue (This will take you to the end of the survey and the "Thank you" page)

**Part I:** Basic information of the gallery and Respondent Characteristics

1. **Please enter your gallery's name:**

2. **For how long has the gallery been in operation? [check one]**
☐ Less than a year
☐ _____years (indicate number)

3. **What type of art is primarily carried by your gallery? [check one only]**
☐ Avant Garde/Contemporary
☐ Modern
☐ Regional
☐ Ethnic/Primal
☐ Electric
☐ European
☐ Other: (explain) ______________________

4. **Which of the following is primarily carried by your gallery? [check one only]**
☐ Painting
☐ Print
☐ Photography
☐ Craft
☐ Sculpture
☐ Other: ______________________

5. **How many artists does your gallery represent?** ____________
6. **How many artists does your gallery *exclusively* represent?** ____________
7. **How many pieces of works do you maintain in stock?** ____________pieces
8. **What percentage of your inventory is held on consignment?** ____________%
9. **What is the average retail price per artistic work that you sell?** $ ____________
10. **Which of the following best describes your title? [check one]**
☐ Owner
☐ Manager
☐ Assistant
☐ Other: ___________________

**11. How long have you (the respondent) been working at this gallery?** ________years
(If less than a year, indicate the number of months: _____________)

**12. How many years have you (the respondent) been in gallery business?** ________years
(If less than a year, indicate the number of months: _____________)

**13.** Please indicate whether your gallery experienced an Increase, a Decrease, or No Change in **Total Sale** when **the past completed fiscal year compares to its preceding year**, and please enter an **estimated percentage** of any changes. Please indicate whether your gallery experienced an Increase, a Decrease, or No Change in each of the listed items when **the past completed fiscal year compares to its preceding year**.

| | | | | |
|---|---|---|---|---|
| **Total Sales……** | **Percentage of Total Sales Increase**<br>**Percentage of Total Sales Decrease** | +______%<br>-______% | | |
| | | **Increase** | **No Change** | **Decrease** |
| **Net Income ………………………………………** | | ☐ | ☐ | ☐ |
| **Number of Clients/Costumers …………..** | | ☐ | ☐ | ☐ |
| **Computer software & equipment Costs** | | ☐ | ☐ | ☐ |
| **Web/Internet Costs ……………………………** | | ☐ | ☐ | ☐ |
| **Marketing and Advertising Expenses ...** | | ☐ | ☐ | ☐ |
| **Employee Expenses ……………………………** | | ☐ | ☐ | ☐ |

**14.** From your perspective, please check the box that best describes your perspective on how much the factor impacted your gallery's performance in the past two years

**Competition from Other Galleries**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Proximity to Other Galleries/Museums**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Competition from Web/Internet Sales**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

1

**Tourism and Visitors to the Destination**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**State Promotion/ County Promotion**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Marketing Gallery via Web (Social Media)**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Marketing Gallery via Advertising**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Supply of Art**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Reliability of Artists and Art Suppliers**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**State of the Economy**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Discretionary Consumer Spending**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Business Taxes/ Fees**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**Involvement in the Community (Boards)**

| Very Limited Extent | Limited Extent | To Some Extent | Great Extent | Very Great Extent |
|---|---|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 | ☐ 4 | ☐ 5 |

**15.** Please identify which single force (factors listed above) have the most **positive** impact on your gallery's business in the **next** two years.

Positive:______________________

Negative:_____________________

**16.** By checking the appropriate box, please indicate the **amount of attention you intend to devote** to each of the factors listed below in your **next fiscal year**. (Extensive Attention to No Attention)

**Personnel/ Staff Management**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Electronic Commerce**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Upgrading Compute Systems/Softwares**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Marketing the Gallery Online (Include Emails)**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Marketing Specific Events and Artists**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Marketing Gallery via Non Web Based on Advertising**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Financial Management (i.e. managing costs)**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Customer Service**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Continuing Artist Relations**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Cultivating New Artists**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ 1 | ☐ 2 | ☐ 3 |

**Theft/ Security Management**

| No Attention | Modest Attention | Extensive Attention |
|---|---|---|
| ☐ | ☐ | ☐ |
| 1 | 2 | 3 |

If you would like to receive a summary of the study, please enter your email address in the box below. The summary report will be sent to you once the analysis is completed.
I greatly appreciate your response.