

# Investing with a Radar

Over centuries art developed from a craft to a science to a market, while always being an inspiration and source for innovation. When considering artists as innovators and their art work as valorisation experiments it becomes logical to look at art as a point of reference for future developments.

This article is written based on an In4Art Features developed for a strategy meeting of MBCF Corporate Finance on the 23<sup>rd</sup> of March 2017 in St. Anton, Austria. This is a story on talent development, on the importance of focus and on getting the timing right for internationalisation. It highlights the growth cycle of an artist's career, while showing various decision moments for investment. *Investing with a Radar* draws on the parallels between company valuation and artist valuation, the parallels between the worlds of MBCF and In4Art.

## Art influences Science

During the Renaissance artists developed themselves from mainly craftsman and humanists into true scientists': experts in observing and reproducing the human anatomies. Dutch master Rembrandt van Rijn painted the Anatomy lessons of *Dr. Nicolaes Tulp* in 1632. The painting shows the anatomy of the subject so realistic and precise that paintings like this one became subjects of research and knowledge development. For the next 350-400 years, the main investors in art and artists were noble men. They patronised artists for their intellect, their brilliance or their ability to capture the time and importance of the benefactor.

## Art influences Business

This changed during the 19th century, not in the last place due to the increasing importance

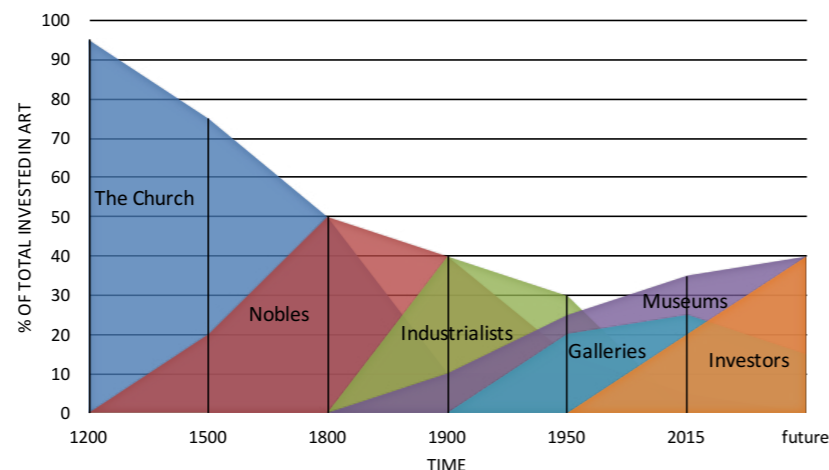
of industrialists. They were economists, not necessarily noble, who worked themselves up through hard work and swift business sense. They took over the leading role in supporting artists but realised they were too busy to spend the time and affection to artists as the nobles had done. They needed intermediaries. This led to the development of the art world how we know it today: filled with museums, art galleries and advisors that have been established and supported by industrialist families. MoMA was established by lady Rockefeller. Guggenheim by its name giver. TATE Modern: the industrialist Henry Tate. A new wave in art history: art became business.

## Art influences Innovation

Now we are a century later and the world anno 2017 is nothing like the Paris of 1910, where artists like Pablo Picasso and Claude Monet set the

stage. We have moved to next industrial revolutions and seen technology increasingly being incorporated in every aspect of our live. Which started with the early photographs and the presentation of the escalator during the 1900 world expo in Paris has now evolved into Virtual Reality and Robotization impacting business in all sectors.

Since the Renaissance, art has been ahead of developments due to its scientific and experimentation oriented nature. The past fifty years' material and shape constraints have dissolved (think about Marcel Duchamp Fountain). This gives all materials and all shapes the potential to be part of an art piece. What does this mean? A powerful recipe for Innovation. Hence, we have reached the third wave in art history: **art as a motor for innovation**



Art & Science

Art & Business

Art & Innovation

*Art can push the limits of the possible in any media. Art can conduct material research beyond imagination because results need not be functional nor scalable. Art can renew the relevance of information by using technological possibilities to realise seemingly impossible historical ideas.*

**Pushing the limits of the possible**

Spiros Hadjidjanos is interested in the new ways information can be represented in the age of digitalization.

He uses an algorithm to render a photograph as a 3D depth map, then uses a 3D printer to make it as an aluminium sculpture and using a UV printer to make a side perspective of the 3D map on carbon fibre. A real arsenal of digital tools to push the limit of photography: blurring the interface between 2D and 3D. The result is a photo, a digital piece and a sculpture in one.

Spiros Hadjidjanos  
Hainbuche  
2015

Photo courtesy  
The Artist & Future Gallery



## Investors era

Investors are interested in what is called healthy return on investment. Artists of tomorrow conduct valorisation experiments delivering information and insights for future developments. Their concepts cover a broad range of media, materials and narratives making their output broad and relevant. They are technology investigators, process analysers, material designers, data miners and social entrepreneurs in one.

## Parallels in valuation

To value an organisation, it is fundamental to determine the right multiple on profit. Is the recent profitable period stable or a result of an unexpected one off? Determining the multiple on profit follows thorough analysis of (historical) data combined with future expectations (assumptions) and the team potential. In art, the same analogy is applied when determining the value of art.

Another interesting parallel relates to the entrepreneur. MBCF sees that company sellers are becoming younger due to two main reasons. The first is that in this post-internet era it is easier to quickly build up a company worth selling. The second is that entrepreneurs are becoming increasingly business minded and see a sale as a

logical step to grow the company, not hampered by emotions. Interesting to see is that the exact same analogy applies to artists. Since the need to be an excellent craftsman to be a good artist is no longer existent in contemporary art and it is more about the concept than the materialised result, age has become less of a factor.

Lastly, in mergers & acquisitions (M&A) it is essential not only to look at the company at hand when valuating, but also to assess the relative position of this company compared to its peers: there is a need for rankings. Which companies are interesting to invest in? The best performers or the second tier? And what about those who have fallen out of the top in recent years, might they be able to realise a comeback? Not surprisingly, also here the art market works identical. Rankings are increasingly used by collectors to make investment decisions and by curators to make exhibition programs.

In recent years, also the category 're-discovery' has gained momentum listing artists who have been 'hot' a while ago and might be on the verge of a come-back.

## Development Model – The Five Building Blocks

At In4Art we developed five building blocks that determine the valuation and future potential of artists. The building blocks provide inspiration and the possibility to compare when dealing with business valuation analytics for M&A.

### Building Block 1: Solid Base

Artists leaving art academy are much like start-ups. They have started to present themselves to the outside world but are, in fact, still in the process of developing their 'solid base': the style, vision and consequently work they want to make. In this phase, the artist must build up **credibility** meaning a focus on distinguishing oneself from peers in the direct surroundings who are in the same development stage. An artist's credibility is built up by being selected for post academic education and residencies. Start-ups build up credibility by showing dedication, persistence and the ability to form a potential

### Material Research

Harm van den Dorpel is a programmer who can realise his wildest dreams making art. Death Imitates Language is an ongoing project consisting of a website with an unending population of speculative works, each generated by inheriting sequences of information – a DNA – from its ancestors.

Harm decides which generated works can live on, which should die and which can procreate. When they have procreated into their optimal state they are translated into physical objects: they get 'frozen', which brings them 'alive' into our world.

Harm van den Dorpel  
Death Imitates Language  
Ongoing

Image Courtesy  
The Artist & Neumeister  
Bar Am Gallery

winning team. Main investors in this period are Friends, Fools and Family.

### Building Block 2: Signalling

At a certain point, it is time for the start-up to reach out to potential angel investors or early stage seed investors. They are still in the process of setting up the company. Little is formalised until the first investor has stepped in. Their success depends on a few moments, where they can pitch their business to reach the right audience. Think of pitch events or network gatherings.

For artists, this period is very similar. The pitching phase for artists is, as it is for start-ups, relatively short. During this period, it is all about **signalling**: getting attention on different platforms. This leads to putting the artist in the spotlights by actors (media, ambassadors, etc.) not having a direct benefit.

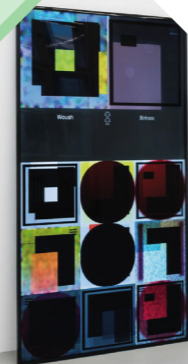
Awards are essential in this period, as are online and offline visibility during exhibitions, fairs and being

featured in articles or events. It is about reaching out (**pitching**) to those who could become stakeholders soon. The focus lies on reaching the (national) ecosystem for supporting talents.

### Building Block 3: Acceleration

Here the artist should be **accelerating and growing fast**. In this phase, the seeds planted in building block 2 must be harvested. All is aimed at getting stakeholders on board. For businesses, the start-up phase is over and profitability should be growing, preferably exponentially. The angels and seed capital investors have put their weight behind the company and are accelerating towards the moment to hand over to series capital investors. For artists, the angels and seed capital investors are their first gallerist or representative who have made sure their name is recurring within the home market.

Within this phase, the artist should make the jump from the national reach towards international market development. Getting the right representation and access to network and international fairs is crucial to completing this building block. For contemporary art, finding stable representation in the main markets will provide the opportunity to get access to the ecosystem of major private collectors and institutions. For the young company, this phase is also about



penetrating international markets and holding ground to prove the stability of growth.

### Building Block 4: Closing the Gap

The art market is a market with a large information gap. This means that it is hard, if not impossible, to determine value objectively. Within such a market it is essential for artists to close the information gap around their practice leading up to a broadly supported agreement on the relevance and quality of one's artistic practice. This way the **risk is reduced** and stakeholders get confidence, that their investment will be a wise investment on the long-term. Closing this gap can be done by building a strong exhibition performance track record consisting of multiple consecutive years, obtaining regular press attention, being the subject of professional publications and becoming part of so called 'branded' collections. These branded collections are considered opinion leading and have a high influence on the actions of many other investors in the art market. In business practice, this stage is only relevant in high information uncertainty sectors (for instance business services).

### Building Block 5: Market Leadership

The last and final building block will lead up to **the top of the rankings**. Market leadership is



### Renewed Relevance

Rafael Lozano Hemmer makes interactive installations and works, which playfully tackle the themes of surveillance, perception and deception.

The piece "1984x1984" was conceived as an homage to George Orwell's dystopian novel, 30 years after his predicted date for the collapse of privacy. The work shows a grid of hundreds of thousands of random numbers extracted from addresses photographed by Google Street View. As the viewer walks in front of that immense variety of images, his or her silhouette is represented within the display and all the numbers inside it count down to the number 1984.

Rafael Lozano Hemmer  
1984x1984, Shadow Box 10  
2015

Image Courtesy  
Antimodular Research

mostly measured through turnover. Companies have the option to list on the stock exchange to generate capital so they can invest in strengthening their positions in undeveloped markets.

Artists growing into building block 5 are equally ranked based on sales performance. Important pieces leaving the studio are those considered to become relevant in art historical terms. Ideally these pieces are 'placed' within major institutional collections. All the other pieces are used to **lower the uncertainty in decision making** for investors. This is done by bringing the works to auction (like public listing) once demand has outgrown supply and gradually pushing up the price levels making the artists increasingly attractive for regular investors.

**In4Art wants to become a relevant 21st century art collection incubating tomorrows leading artists and art collectors.**

The In4Art Collection is based on the pillars: pushing the limits of the possible, material research and renewed relevance. 'Investing with a Radar' was commissioned by MBCF Corporate Finance. The MBCF commission will be used to support and advise artists within the first three building blocks of the model aiming to accelerate their growth. Part of this can be seen during the [stARTup Exhibition: Co-Existence](#) from May 20th – June 10th, 2017 in Amsterdam.

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