

# Professional Guidelines

## DISCOUNTS

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This document is a complement to the **Professional Guidelines** topics titled, **Consignment Contract** and **Exhibition Contract** where discounts may be discussed as a contractual issue between the gallery or exhibition sponsor and the artist.

### I Introduction

In our society, price establishes worth and value. For better or worse, the common denominator in the marketplace is the dollar, and worth is measured by what people will pay. It is the job of both the artist and the gallery to establish the value of the artist's work (by virtue of its uniqueness, craftsmanship, reputation and quality), and remind people that this worth is reflected in its price. The price confirms this value. If the selling price is negotiable, then the discounted price will be the true value, not the retail price. As a result, it's in every artist's interest to maintain close control over the selling prices of his or her work.

When a store decides to offer a discount on merchandise that they purchased wholesale, they are simply cutting their portion of the retail price. In the retail business, discounting has several motives. Among them are: to attract new customers by offering selected products at a loss; to get rid of products that have not sold well; or to eliminate old inventory to make space for new inventory.

But the art business is different than ordinary retail. The selling of art functions at a different level, not in the least because most galleries do not own the work they sell. Generally, artwork is consigned to galleries, and the artist owns the work. Nor is it very dignified to think of artworks as mere merchandise. Consequently, discounting in these circumstances can have an immediate impact on the value of the work and the artist's reputation. Not all of it is good.

It has become increasingly common for galleries to offer discounts from their retail prices. At one time, the practice of giving discounts applied only to major works of art, at prices of tens or even hundreds of thousands of dollars. Discounts were rarely offered - except to very important collectors. This is no longer the case.

Awareness about "collector's discounts" appears to be widespread. Requests for discounts have increased dramatically, and the prices at which collectors request them have dropped. Reducing the price up to 10% is not unusual; sometimes even greater discounts are requested. In this atmosphere, no self-respecting collector wants to be the one that DIDN'T get a discount. The net result is that retail prices are assumed to be negotiable, and galleries expect artists to share the financial impact.

## **II Some Remarks About Pricing**

Pricing artwork is not a science. At a basic level, the artist's price reflects the costs of production - primarily time, materials, and overhead. The artist's price is the wholesale price, which is usually half the retail price. In galleries, the retail price also covers their costs of doing business - rent, promotion, salaries and insurance. Artwork selling at lower price points, (under \$250 retail), often has very little built-in profit. Common sense makes discounting inappropriate for less expensive work.

The higher prices of one-of-a-kind work reflect much more than simple time and materials. The price of high-end work includes intangibles, which are difficult to measure (e.g. the uniqueness of an artist's vision, the virtuosity of craftsmanship, the reputation of the artist and the generally perceived "quality" of the artwork itself). Higher prices may also reflect that only the best of the artist's work is to be sold, that the artist probably will sell only a fraction of the work shown, or that the gallery will incur considerable costs exhibiting the work.

At the high end, museums and major collectors can play an important role as buyers. Artists and galleries may recognize that a purchase by a major collector or museum will often validate these many intangibles and confirm the value of all the artist's works. Consequently, museums or important collectors often ask for and receive discounts on high-end art and craft.

Regardless, it is important for an artist to maintain consistent pricing wherever work is shown: galleries, museums, non-profit exhibition spaces, or even from their studios. Consistency discourages buyers from shopping around for bargains or deferring purchases. It assures all galleries and retail spaces that they won't be undercut. Price consistency also helps establish a predictable expectation of value for an artist's work. Many collectors travel extensively, and they look at art and craft wherever they go. If collectors find different prices for similar pieces, they may feel cheated, and come to mistrust the established value of the artist's work.

For artists working in multiples, consistent pricing is equally important. "When a value has been established for a limited edition piece and substantiated by virtue that buyers have paid that price, selling another piece in the edition at a lesser price lowers the value of all pieces in the edition and therefore cheats the collectors who have paid full price. When you are selling virtually the same piece over and over again, consistency in pricing is ethically essential." (A quotation from Art Calendar Town Meeting, "Pricing by Art Calendar Readers", Rosetta, Loveland, CO, November 1996, page 7.)

For all these reasons, the Professional Guidelines Recommends that artists establish what they believe to be the appropriate retail price, and keep that price uniform for all their sales locations.

## **III Advantages of Discounts**

Undoubtedly, discounts can provide advantages to both the artist and the gallery. These advantages include:

- A It creates a powerful psychological incentive.** This should not be underestimated. Many times the importance of a discount to the client potential buyer is a perception of value not related to a specific piece, but is reflected in the psychology of the acquisition itself. The buyer wants to know they have purchased work at the best price.
- B Creates an incentive to “close the deal” when a client is uncertain.**
- C Acknowledges the value of the collector.** A discount is sometimes understood as an affirmation; the client has earned enough status to deserve special treatment.
- D Rewards the loyalty of an established client.**
- E Gets the client to buy more pieces in one transaction.**
- F Provides an incentive for buying older pieces or works that might otherwise be difficult to sell.**
- G Generates quick cash flow.**
- H Discounting may facilitate placement of work in an important private collection** and it may have an additional advantage if the collection is later donated to a museum.

#### **IV Disadvantages of Discounts**

Discounts can create disadvantages to both the artist and the gallery. These include:

- A Discounts create uncertainty about the VALUE of the artwork.** Discounting gives the message that the work was perhaps not worth its initial price, and may diminish what customers are willing to pay. Thus, in the long run, discounting can erode value. By not discounting, a consistent value is maintained for the work.
- B Discounts create uncertainty about the stated PRICE of artwork.** If it is widely known that a gallery will negotiate prices, buyers will regard the posted retail price as a fiction, and will expect a discounted price as a starting point for negotiation.
- C Discounting creates the impression that art should be bargained for,** like items in a flea market. Many craftspeople find this highly undignified.
- D If an artist’s work is discounted in one gallery and not another, and buyers become aware of it, sales at the gallery that refuses to give discounts may be discouraged.**
- E Discounts can encourage price competition between galleries,** which is not in the best interest of either artists or galleries.
- F Giving discounts selectively may imply that some collectors are more important than others.** Many collectors know one another, whether or not they live in the same area. If some customers receive discounts and others do not, word may get around and cause ill feelings.
- G When buyers negotiate for discounts, the discount becomes the object of discussion instead of the artwork itself.**

**H Once a customer receives a discount from a gallery, he or she will expect a discount on all future purchases from that gallery.**

## **V Options for Dealing with Gallery Discounts**

When first entering into negotiations with a gallery, artists should be aware of the gallery's policy regarding discounts. The artist and gallery have several options, each with different consequences.

**Option A Refuse to offer discounts at all.** This policy will ensure that the retail prices for the artist's work are absolutely uniform, and maintain the value of the work. However, a no-discount policy ties the hands of the gallery, and may discourage sales.

**Option B Allow the gallery to offer discounts, but insist that all discounts be taken from the gallery's share of the retail price.** This policy regards discounting as a matter between the gallery and the buyer. Carroll Michels puts it this way: "For a gallery, the main purpose of giving discounts to a collector is to reward loyalty and patronage, and to create incentive for the collector to remain a client. As a token of gratitude, awarding a discount is a public-relations gesture." (From page 72 of How to Survive and Prosper as an Artist)

Refusing to take discounts from the artist's share of the retail price is not unusual. Jeweler Jan Yager says: "I take great care in setting my prices, and do not offer discounts. I assure customers they will pay no more or less than anyone else. I work with them on terms of payment if that is the issue. Discounts offered by galleries are their business, but must not be taken from my part."

Another jeweler, Tami Dean, says, "I wouldn't sign any contract that implied an expectation that I was to receive anything less than the 50% or whatever is agreed upon in the consignment/loan arrangement. Discounts are a loyalty issue the galleries have with their clients and are a gallery's prerogative if they want to discount my pieces. [However] it's not a gallery's prerogative to assume that I'm going to engage in some loyalty issue they have with a client of theirs."

This policy ensures that the artist is paid the full 50% of the retail price, and puts the burden of discounting entirely on the gallery. Because the gallery must bear the full cost of discounting, they will be discouraged from deep discounts.

**Option C Share the discount between artist and gallery, but cap the artist's share of the discount.** The total discount is commonly capped at 10% of retail, with the gallery and the artist each absorbing half the discount. Splitting the discount usually creates a feeling of partnership between the gallery and artist. The galleries will have some flexibility to negotiate prices with potential buyers, and the financial burden of discounting is shared - but limited. Under this policy, artists are protected since discounts deeper than 10% become the responsibility of the gallery.

**Option D Encourage alternatives to discounts.** A "special client" acknowledgment can be handled without giving discounts at all. An expression of appreciation from the gallery may take many forms:

**1 Send a letter of appreciation.**

- 2 Give a book, magazine article or video** about the artist whose work the collector has purchased.
- 3 Bring in special pieces from the artist** for the collector to see.
- 4 Notify the collector about special previews of upcoming exhibitions.**
- 5 Call the collector when their favorite artists send new work.**
- 6 Between exhibitions, send photographic images of the artist's new work** to the collector.
- 7 Acknowledge the collector with a gift of appreciation** such as a piece of jewelry, a gift certificate to a great restaurant, or a good bottle of champagne.
- 8 Arrange a private meeting between artist and collector** prior to an opening, or other event.
- 9 Invite the collector to a lunch or dinner with the artist** when the artist is visiting for a show at the gallery.

**Option E Impose no restrictions on discounts.** The Professional Guidelines does not recommend this practice.

## **VI Recommendations from the Professional Guidelines Regarding Gallery Discounts**

- A Discuss discounts with your gallery** and understand their policy.
- B Understand what percentage of the retail price the discount may be.**
- C Know from whose side (from the artist's, or the gallery's, or split between the two) the discount will be taken.**
- D Agree on a discount policy that the artist and the gallery consider fair and practical.**
- E Write this discount policy into the artist/gallery contract.**
- F Suggest alternatives to the use of discounts** to reward clients and stimulate sales.

## **VII Artist Discounts to Their Own Customers**

Every artist that sells directly to clients should have a clear idea of what to do about discounts. Some artists will refuse to offer discounts at all. Others will use discounts only under special circumstances.

Tami Dean says, "I personally make the decision to offer a discount when I encounter an appropriate situation where it comes up with my own private client. I reserve the right to offer my own loyal client/collector a discount because it's appropriate in a certain situation; the client/collector is buying two, three, or more pieces; or they've spread the word among friends about my work; or have proven to be sincere supporters of my work. It's a personal decision not to be made by anyone but me."

Artists sometimes must deal with buyers demanding a discount, which can be very uncomfortable. It's best to prepare a response or two before customers try to bargain.

Author Dan Ramsey says, "Remember to apply the first rule of pricing your craft - **sell value over price**. Make a habit of **answering any question about pricing with information about**

**value.** Only when your customer understands the value of your craft product should you tell them the price." (From page 31 of The Crafter's Guide to Pricing Your Work) He adds, "Don't assume that the customer sees all the features and recognizes the benefits of purchasing your work." (From page 38) In other words, take the opportunity to educate people about your work, instead of bargaining.

Prices can be justified by pointing out the qualities of the work at hand. The following are talking points that can be used to deflect a demand for a discount.

In conversations, the artist can mention:

- A The exceptional design and creative aspects of the piece and the talented of the artist.**
- B The amount of skill and expertise needed to make the piece.**
- C The quality of the materials used in the piece.**
- D Special details on the piece and explain how well executed they are.**
- F The artist's education and/or training.**
- G How long it takes for an artist to get to the point in their career where they can produce this quality of work.**
- H The artist's reputation in the field.**
- G Museum collections that include the artist's work.**

## **VIII Museum Discounts**

Discounts given to a museum or public collection hold a different set of criteria than discounts given to a private collector. Museums are non-profit institutions and rarely have budgets large enough to buy all the serious work they might like to. It is not unusual for artists and galleries to help museums by offering discounts. For the artist, being part of a museum collection potentially adds to the artist's reputation, credibility and visibility. It serves as an endorsement to the quality of the artwork. For the gallery, arranging for a museum acquisition is a "feather in their cap", and validates the quality of all the other work shown at the gallery. And, of course, having work in a museum collection can benefit the community at large.

## **IX Recommendations from the Professional Guidelines**

### **Regarding Museum Discounts**

If a gallery is handling the sale, discounts for museum acquisitions should be discussed between the artist and gallery on an individual basis. Discounts can be split between the gallery and the artist depending on how important it is to place a piece in a particular museum collection. Sometimes, galleries may want to consider giving the museum a larger discount than they would give to a private collector, and this should be discussed with the artist. Considerations also include influencing which piece the artist may want to have in a museum collection.

In some cases, the gallery may absorb a larger proportion of the discount, especially if doing so will close the sale or help them to establish a working relationship with a particular museum. This is always negotiable. It may be in the artist's best interest to consider their gallery's

experience in placing the artist's work in museums for the benefit of all parties involved. Since artists can list a museum's collection on their resume after only one sale, there is less motivation for discounting more than one piece to a museum.

## **X Gifts to Museums**

In The Crafts Business Encyclopedia by Michael Schott as revised by Leonard D. Duboff, he suggests, "museums will occasionally ask craftspeople to donate work to the museum's collections. Whether you wish to make such a donation is a business decision, although, if the museum has funds with which it buys other works, you should certainly try to have the museum buy your work. While art collectors can count their contribution to a museum as a tax deduction, the tax laws do not permit the artist who created the work to enjoy this same tax advantage. In fact, for purposes of federal income tax, the artist may deduct only the cost of materials used in creating that work and only in the tax year in which the work was donated. Oregon, Maryland, Arkansas, Michigan, and Kansas provide additional state-tax benefits for artists' donations to museums and other qualified charities."

Contributions of craftwork to a museum, therefore, make sense if you have a special feeling for the particular museum, and that museum has insufficient funds for a purchase. It's also possible that having work in a museum's collection is a point of pride and an important addition to your résumé.

If you make such a contribution, be sure that the conditions of the gift are specified in writing. Note whether the museum has the right to put the piece in storage, the right to sell it, and whether the piece must be returned to you if there is no further interest in exhibiting it. For more information about artists' donations of their work, please see "Art Law in a Nutshell", 2nd Ed. and Appendix C in The Desk book of Art Law, 2nd Ed.

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