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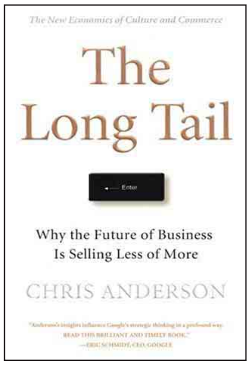

The Long Tail

Why the Future of Business Is Selling Less of More

by Chris Anderson
Hyperion © 2006
256 pages

Focus

- Leadership & Mgt.
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- **Concepts & Trends**

Take-Aways

- The "Long Tail" is a statistical curve showing the edge that digital sellers with infinite goods for niche markets have over retailers with limited goods for mass markets.
- Mass-selling goods create a high, thin spike on the sales graph; niche goods fill a longer, lower bar – the long tail.
- Niche products increasingly last longer and do better than short-lived popular hits.
- The marketplace has operated like a high school "popularity contest" won by mega-hits, bestsellers and celebrities, but microproducts will change this model.
- Virtual inventory and digital merchandise offer the longest market reach and the cheapest product storage.
- "Capacity constraint" has already changed entertainment and information (where anyone can be a producer); and may also alter "mass production" consumer goods.
- Healthy long-tail operations offer many products and help buyers fill their wishes.
- Word-of-mouth consumer reviews and online buzz build long-tail sales.
- To ride the long tail, give your customers flexibility in prices, service and delivery.
- React to market trends. Forget the "one-size-fits-all" matrix. The niche has power.

Rating (10 is best)

Overall	Applicability	Innovation	Style
10	**9**	**10**	**10**

Relevance

What You Will Learn

In this Abstract, you will learn: 1) What the "Long Tail" is and what it means to your business; 2) How to recognize and use the difference between out-dated, hit-oriented business models and modern long-tail business realities; 3) How to tailor your pricing, product line and marketing pitch to reach niche consumers; and 4) Why your business needs online buzz.

Recommendation

Does the modern world of online markets make you feel like Rip Van Winkle, who awoke from a 20-year nap to find a changed society? Author Chris Anderson has your wake-up call. With hard facts, charts and numbers, plus futuristic insights, Anderson decodes the mysteries of online marketing, Internet-based commerce and other New Age economic realities. His calculations, public feedback and extensive research offer more than just statistics for the sake of proving his point: Online retailing has a long reach into niche markets. This gives its products longevity that stores with finite shelf space can't match, no matter how much steam they get from short-lived, blockbuster products. Anderson credibly explains the decline in box office sales and the rise of niche companies such as Netflix and iTunes. Despite a few redundancies (he believes in thorough explanations), keep on reading. You won't mind; the text is a pleasure, written with wit, style and expertise. *getAbstract* recommends it to Luddites, old school business operators, anyone in entertainment or retail, and New Age Internet-based marketers (although you probably already know just how long this tail can be).

Abstract

Then and Now

Consider this time capsule from the 1970s and 1980s. Mega-music hits from Michael Jackson and the Eagles dominated the music scene. Corporate hit machines cranked out a short list of top television shows, movies and performers. The message: Either you're hot or you're not. And in the hit-dominated world of the'70s and '80s, the mega-hits were the gods of profits. Not any more. Fast-forward to the Internet era. A broad band of cable, DVD, Web facilities, video games, iPods, personalized soundtracks and blogs has replaced the older, narrow band of network radio and television shows. Welcome to the New Order, where niche products have overrun the former gatekeepers of taste and megabytes are replacing mega-buildings.

"The story of the Long Tail is really about the economics of abundance – what happens when the bottlenecks that stand between supply and demand in our culture start to disappear and everything becomes available to everyone."

Heads and Tails

The "Long Tail" – the extensive, online, sustained reach of smaller, low-volume specialized products – is now wagging the big dog of blockbuster hits in news, music, literature and film. It is invading and changing many retail markets. Internet-driven retailing technology has fundamentally altered the balance of marketing power. Mega-sized big box retailers are being threatened by the long, cyberspace tail of mini-markets and fragmented niches.

"A few things sell a lot and a lot of things sell a little."

The long tail consists of the "hidden majority," the vast assortment of books, films, recordings and other items that don't become popular hits. Some of it is obscure garbage, but long-tail merchandise includes a lot of quality products that "one-size-fits-all" gatekeepers bypass as they balance expensive inventory and finite space. This changes the 80-20 rule. Some items will continue to garner better sales than others, but "even if 20% of the products account for 80% of the revenue" great profits can still be made selling the other 80% – particularly "in long-tail markets, where the carrying costs of inventory are low."

"Popularity no longer has a monopoly on profitability."

In baseball terms, Wal-Mart and other big retailers can carry only the home runs and the grand-slam products. But niche, long-term, online vendors, who make everything available, can profitably sell bunts, singles and walks. And, when they sell a long string of little hits and bunts, the long-tail profit score is right out of the ballpark. For example, the typical NetFlix consumer – who can order either popular or obscure films in abundance without leaving home – rents DVDs at a rate triple that of standard video/DVD rental shops. Today, 5% of U.S. shopping occurs online. Amazon CEO Jeff Bezos predicts it will reach 15% of all retail.

"The Web is the ultimate marketplace of ideas, governed by the laws of big numbers."

For another demonstration of the power of the long tail, look at the literary shelf life of *Touching the Void*, British author and mountaineer Joe Simpson's book about his dangerous, near-fatal mountain climbing adventures in Peru. Published in 1988, it got favorable reviews but was quickly forgotten. Ten years later, its fortunes dramatically changed when a similar book – *Into Thin Air*, Jon Krakauer's dramatic Mt. Everest saga – became a hot seller. When mom-and-pop reviewers compared the two books on Amazon.com, their favorable buzz made *Touching the Void* into a *New York Times* bestseller. The extended tail of online consumers' specialized preferences powerfully revived a book the merchants of bestsellers had long forgotten. This underscores the forceful ability of Amazon and other online retailers to churn profits out of niche goods.

"That's the root calculus of the Long Tail. The lower the costs of selling, the more you can sell."

Blockbuster Hits' Historic Ups and Downs

Culture and consumption were local phenomena in the years prior to the Industrial Revolution. Fragmentation and distance created regional tastes, accents and flavors. But the century-by-century arrival of urbanization, the printing press, the phonograph and other innovations leading into the 1900s, sparked initial waves of mass culture and societal shifts. In the twentieth century, specifically post-WWII, innovation in the broadcast world sparked a "golden age" of television and radio. The majority of Americans watched Walter Cronkite's nightly news and followed top-rated shows such as *Gunsmoke* and *I Dream of Genie*. This golden period sparkled until the 1990s and the early years of the new century.

"Successful Long Tail aggregators need to have both hits and niches. They need to span the full range of variety, from the broadest appeal to the narrowest, to be able to make the connections that can illuminate a path down the Long Tail that makes sense for everyone."

The twenty-first century began well enough for the powers that ruled the traditional entertainment market. Album sales were up 100% from 1990 through 2000 due to top hits from Britney Spears, the Backstreet Boys, *NSYNC and other popular performers. But when the dot-com bubble burst, bubble gum music popped, too. Record sales fell 2.5% in 2001 and almost 7% in 2002. By the end of 2005, the music industry lost another 7% in sales. While general record sales dropped by 25%, the revenues from hit records declined by almost half. The shift from mainstream spike to the extended long tail had begun. The arrival of Napster, home computer CD copying and "peer-to-peer" music trading halted the growth of the traditional music distribution industry.

Established players lost more market share as the volume of available music grew. Similar trends emerged in other industries, such as newspapers, movies, network television and magazines. The market's popularity-driven hits weakened. This shift transformed the market for entertainment and information; one day, it may do the same for other consumer goods. That trend has already begun.

"The traditional line between producers and consumers has blurred."

A History Lesson from Sears

The long tail began well before eBay or Amazon popped up on your home computer. Ironically, the long tail is actually the offspring of the traditional retail industry. Non-Web based retail innovations such as credit cards, overnight delivery and modern inventory standards helped nurture the new order long before the Internet came home. Even industry giants such as Sears and Wal-Mart helped set the stage for the long-tail takeover. By dramatically changing how people shop, the two retail chains pioneered the path that online vendors eventually seized. Sears, for example, published its "wish book," a mail-order catalogue that cut the local ties between the store and its customers. Sears then created superstores, designing a template that Wal-Mart would use and polish. This model featured an extensive supply of merchandise, low prices and self-service. Extensive, but not infinite.

"The tools of creativity are now cheap and talent is more widely distributed than we know."

The Triple Force

The high school kid duplicating CDs at home is only one example of the dissolving difference between professional producers and "amateur artists." Three forces are melting that border:

- "Democratization" of production tools – Due to PCs, inexpensive production equipment, digital photography and online selling, everyone can become a published author, talent scout or recording artist. The Internet has "lowered the barrier to market entry," as seen in the blog community's many citizen publishers and reporters.
- Reduced distribution costs – The Web makes it cheaper to deliver merchandise to readers, listeners and viewers.
- Supply-demand pipeline – Customers' product reviews, Google rankings and Web site recommendations let consumers tap into new products and services. These "filters" make it easier for audiences to sample niche products.

"Increasingly, the winning strategy is to separate content into its component parts ('microchunks'), so that people can consume it the way they want, as well as remix it with other content to create something new."

Online merchandising also has democratized distribution, as shown by "aggregators," online companies that collect and distribute products, digitized data (such as music), services and advertising. Social sites like MySpace are aggregators, as is *Wikipedia*, an online, contributor-based encyclopedia. As a collector and distributor of information, *Wikipedia* draws from many so-called "amateurs" who often – but not always – show greater breadth, responsiveness and self-correcting accuracy than traditional knowledge and production channels.

The Expanding Library

The publishing industry also demonstrates the long tail's power. Consider the math: About 200,000 books are printed annually in English. The standard library superstore will stock "around 100,000 titles," and many of those will not sell. A typical book sells only 500 copies in America, which means that roughly 98% of published manuscripts remain noncommercial. But online booksellers, self-publishing companies and print-on-demand services have built a lucrative market for low-volume books. As music business expert Kevin Laws said, "The biggest money is in the smallest sales." Unconventional sellers find profits in obscure titles.

"Niches are different. One person's noise is another's signal."

The "Nine Basic Rules of Long-Tail Success"

1. "Move inventory way in…or way out" – The old mail-order businesses created a new path with huge, centrally located warehouses. In the modern era, the Internet sales sites of traditional "big box" stores (Target, Wal-Mart, Best Buy) let them centralize

their stock of merchandise. This tactic allows the big boxes to offer a greater variety of products online than they can display in their traditional stores. Online stores such as iTunes and Amazon have reduced their inventory costs to nothing through creative inventory techniques. Amazon, for example, has an extensive "virtual" or "distributed inventory;" 40% of its products are stocked and shipped by third-party vendors. "Amazon gets closer and closer to breaking the tyranny of the shelf entirely." iTunes, a virtual jukebox, stores its musical stock in megabits.

2. "Let the customers do the work" – Google, eBay and Craigslist rely heavily on their customers' labor. Self-service is the key. Customers handle shipping, inventory and tracking. Forget about outsourcing; this trend is "crowdsourcing."
3. "One distribution method doesn't fit all" – Some of your clients will enjoy shopping online; others will prefer a store. Some like to conduct extensive online searches before shopping in a traditional mall. Remain flexible. Maintain a variety of "distribution channels" so you can cater to different segments of the market.
4. "One product doesn't fit all" – This is the era of specialization or "microchunking." Different consumers will request, utilize and evaluate your product from a variety of perspectives. Some will want standard CDs; others will seek out distinctive cellular phone ringtones or short samples of music. Be prepared to produce and package your product for different niches.
5. "One price doesn't fit all" – Rubber-band pricing is the new rule. That's the eBay model, wherein most products are priced through auctions. iTunes charges 99 cents for each recorded track, but the price drops if you buy an entire album. Likewise, Rhapsody – another online music vendor – peddles its tunes for 49 to 79 cents. This moveable pricing plan has helped it boost sales by 300%.
6. "Share information" – Customers value information that standard retail chains often guard tightly. Peer reviews, buying patterns and detailed product specifications help consumers and build trust.
7. "Think 'and' not 'or'" – Learn to use the word "and." Due to low inventory costs, unlimited supply and inexpensive distribution networks, online retailers can abandon the either/or choices that limit traditional vendors and distributors. Retailers see that giving consumers a broad choice of goods yields higher profits in the long tail.
8. "Trust the market to do your job" – Limited shelf space and high operating costs forced traditional players to make difficult predictions about customer tastes, shopping patterns and trends. In the long tail, those choices are unnecessary. The market will filter, select and find the right goods. The group mind is your friend.
9. "Understand the power of free" – Many top online sellers offer free services and products, including e-mail accounts and subscriptions. Once consumers are lured in by a free introduction, many of them ultimately upgrade to a fee-based menu. Additionally, free samples of video games and music build a loyal customer base.

In the future, as costs drop and inventories expand, anything could be possible in the virtual shopping world. Consumers will face one ultimate question: What do you want?

"For a generation of customers used to doing their buying research via search engine, a company's brand is not what the company says it is, but what Google says it is."

"The collective now controls the message."

"The new tastemakers are us."

About The Author

Chris Anderson is the editor of *Wired* magazine, which he has led to five National Magazine Award nominations. In 2005, he was named Advertising Age's editor of the year. He previously worked at *The Economist, Nature* and *Science* magazines.

