

The “Long Tail” and the Rise of the “Miss”

Wired Report for CM 561
New Media Strategy and Design

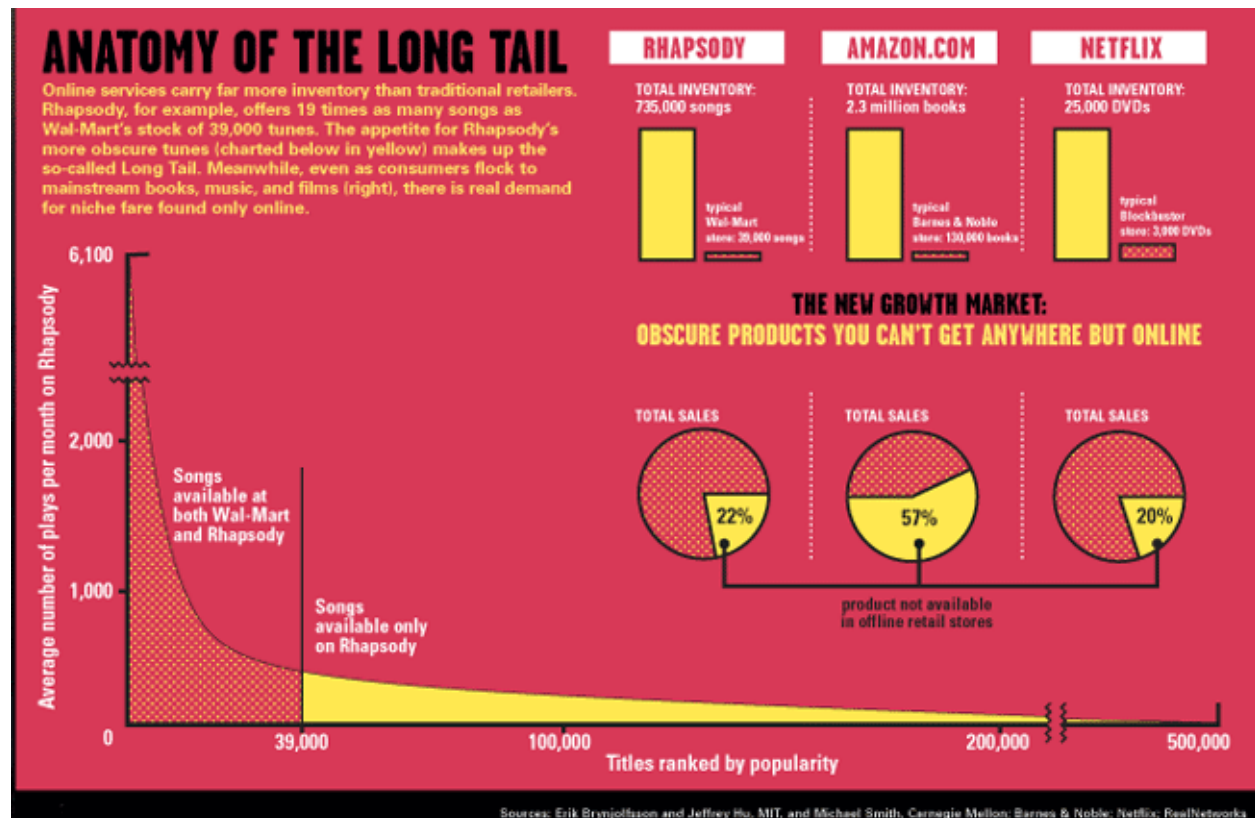
June 12, 2006
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The rise of digital marketplaces and digital media have increased consumer convenience and created new business success stories. The companies that have succeeded have explored new paradigms that change the concept of inventory and the domination of hit items. In October, 2004, Chris Anderson, the Editor-In-Chief of *Wired* Magazine wrote an article about one such paradigm. The “Long Tail” is the trailing off end of a sales distribution graph (see below). While for many years entertainment businesses subscribed to the “80/20 rule” – 20% of products would generate 80% of profits³ – Anderson’s thesis is that digital marketplaces can make a significant amount of money from a greater variety of products, by remembering “that the 20% rule is about hits, not sales of any sort.”¹ The remaining products, the “misses” also sell, just at smaller amounts, and new technologies allow both producers and consumers to benefit.

Two factors that created the “hit” mentality are now becoming obsolete. The need to find significant local audiences limits movie theaters, bookstores, record stores, etc., to those products that were guaranteed to sell a certain amount of tickets or units. Likewise, the broadcast industry is limited by available bandwidth, cable channel capacity, and time into producing only those programs that will generate the most profits. With computer-based media distribution, these factors disappear.

Among his examples, Anderson included the online subscription-based music streaming service Rhapsody. As the graphic below shows, songs out beyond the top 400,000 in popularity get some play on Rhapsody, whereas Wal-Mart carries only the top 39,000. Wal-Mart must sell enough volume of a CD to cover their costs (100, 000 units, according to Anderson); Rhapsody’s digital music files are so small that holding a much larger inventory is practical. Although their products are physical items, similar models hold true for companies such as Amazon.com and

Netflix who can position large warehouses in inexpensive areas to hold a wider variety than competitors who must pay for rent and staff in a variety of store locations.



(Graphic from *Wired* Magazine, October 2004 issue).

The “long tail” phenomenon is a boon for customers who can suddenly find older, obscure and niche products more easily. Whether it’s Bollywood imports to appeal to the Indian population in America or Canadian media products that currently get drowned out by American hits in their own country, new niches will suddenly become evident. And as customers find more products they, like they may even consume more of them, driving up overall demand.⁴

Anderson’s article contained three major rules in maximizing the impact of the Long Tail. Carry as wide a variety of products as possible. Charge as little as possible – especially for digital-only music tracks that have lower production costs. Finally, help the consumer find what he or she wants, with an emphasis on driving demand further down the tail to more obscure

products. Amazon's feature indicating that purchasers of a given product also bought certain other items is one example of the latter technique.

Anderson has continued to promote this concept via his blog (<http://www.thelongtail.com/>) and has expanded his original article into a book due out later this summer. More importantly, members of the business community have expanded on his concepts in a variety of ways. A recent article in the *Venture Capital Journal* cautioned that a Long Tail business model is rarely successful by itself but can be a very profitable add-on to an existing business.³ In addition, businesses that "widen" the tail or enable other companies to make use of Long Tail models have a great deal of potential. One example cited is a company called Pictopia which is essentially a print on demand middleman for archives of photographs owned by other companies or organizations. The *Harvard Business Review* provided additional techniques to maximize the profits of Long Tail-based companies by promoting the back catalog, slowing consumption and encouraging procrastination (so that subscribers will delay returning their Netflix DVDs, for example).⁵

The music and book industries are especially taking a hard look at this model and strategizing around its potential. While traditional hit-based CDs still drive the music purchasing industry, among digital-only releases independent artists accounted for approximately 47% of the sales.² This is a small but growing segment of the music industry as digital music techniques and storage become even more common and less expensive.

The Book Industry Study Group's 2006 Making Information Pay conference featured Anderson as a keynote speaker. Both Print on Demand technologies and ultra-short-run printing are techniques that allow publishers to keep more titles "in print" and therefore take advantage of Long Tail phenomena.⁶ Boris Wert, COO of Abebooks, also presented at the conference on the

subject of selling books to micro-markets. In addition to techniques similar to those described above, he emphasized the search engine marketing and search engine optimization as techniques to advertise “down tail” products.⁸

The Long Tail theory has been gaining attention and popularity, but does it produce the desired results if you’re not a large company like Amazon.com? A recent article by O’Reilly Research comparing Nielsen Bookscan units to Safari Books Online or Google Book Search page views suggests that it does.⁹ The online results showed more interest in the “tail” of the distribution than the Bookscan results. In fact, some “down tail” books that are old and currently “out of print” showed a spike of interest for used copies. These are a natural market to be reintroduced as print-on-demand titles. This study, as well as the increasing awareness and growth of options for digital media and internet storefronts, indicate that Anderson’s theory is guiding online businesses to greater profits. The “tyranny of the hit” will soon be over, and the rise of the “miss” has begun.

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