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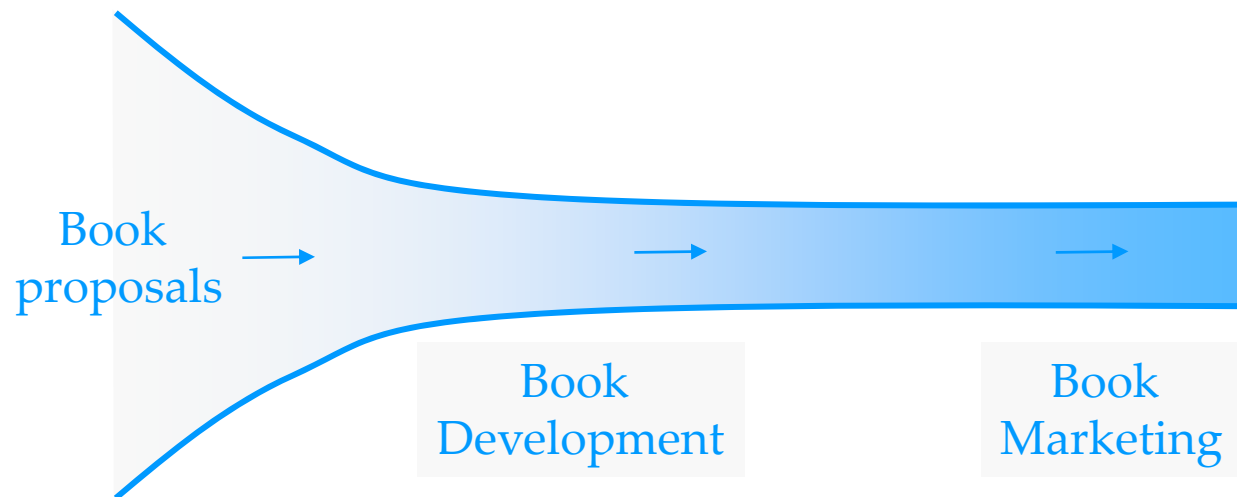
Revisiting The Long Tail: Implications for the Book Industry

Anita Elberse
Book Industry Study Group, September 12, 2008

Conventional Thinking...

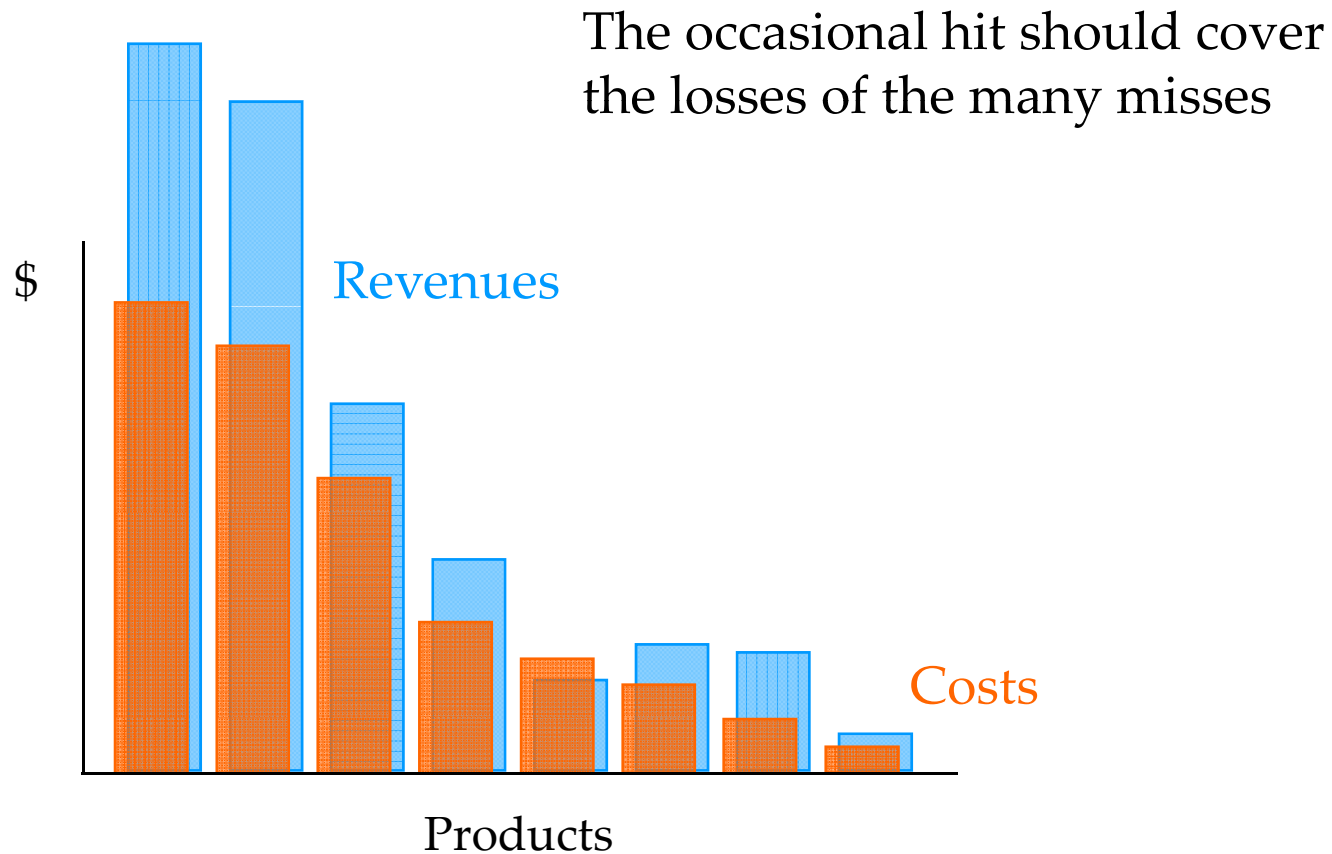
Most large publishers employ a **blockbuster strategy**:

They focus their development and marketing resources on a small set of likely bestsellers



Conventional Thinking...

Most large publishers employ a **blockbuster strategy**:



Conventional Thinking... Challenged

Digital technology radically changes market conditions:

- Publishers can easily and cheaply replicate books
- Retailers have infinite shelf space and new tools to drive and direct demand
- Consumers can easily search through the many options, and better match choices to preferences

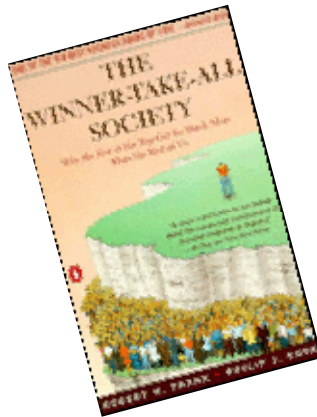
Is a **blockbuster strategy**
still most effective in today's world?

Will Blockbuster Strategies Survive?

Some say “yes”

Creative industries are
“winner-take-all” markets

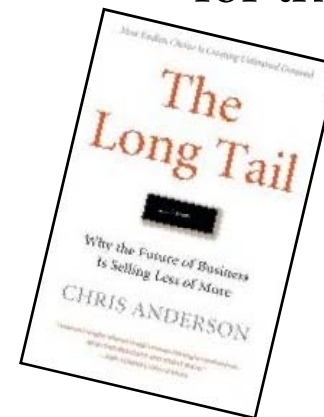
– and new technologies
further reinforce that
phenomenon



... but a recent idea says “no”

Chris Anderson’s
“long-tail” theory:
“the future of business
is selling less of more”

– this has huge ramifications
for the media

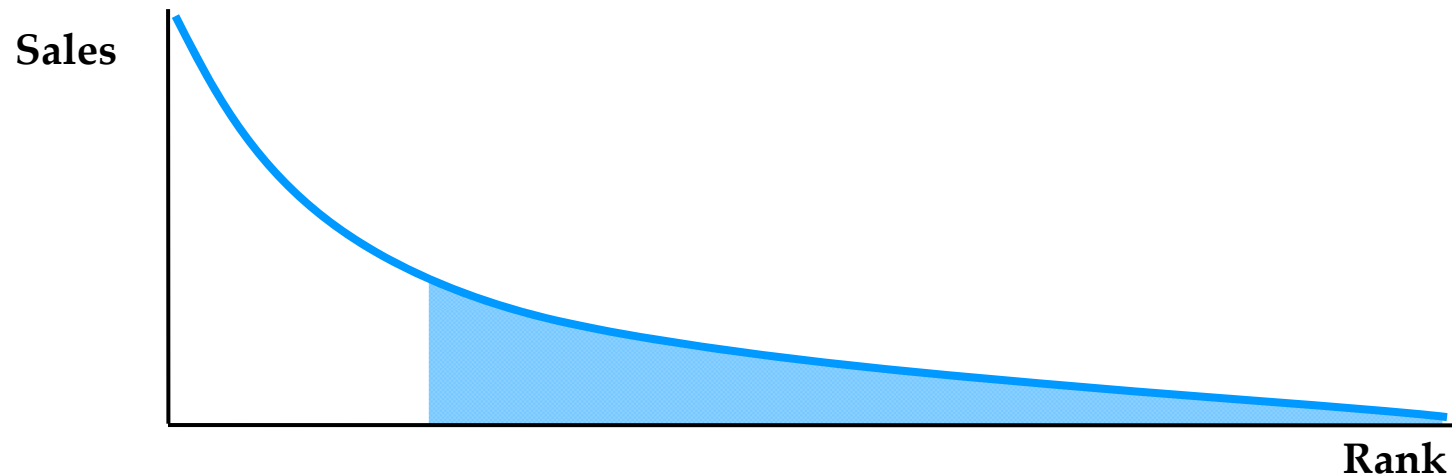


What Is The “Long Tail” Theory?

Anderson’s first idea:

Online channels cause merchandise assortments to grow because physical and cost constraints on selection disappear

– the **tail** of the sales distribution is getting **longer**

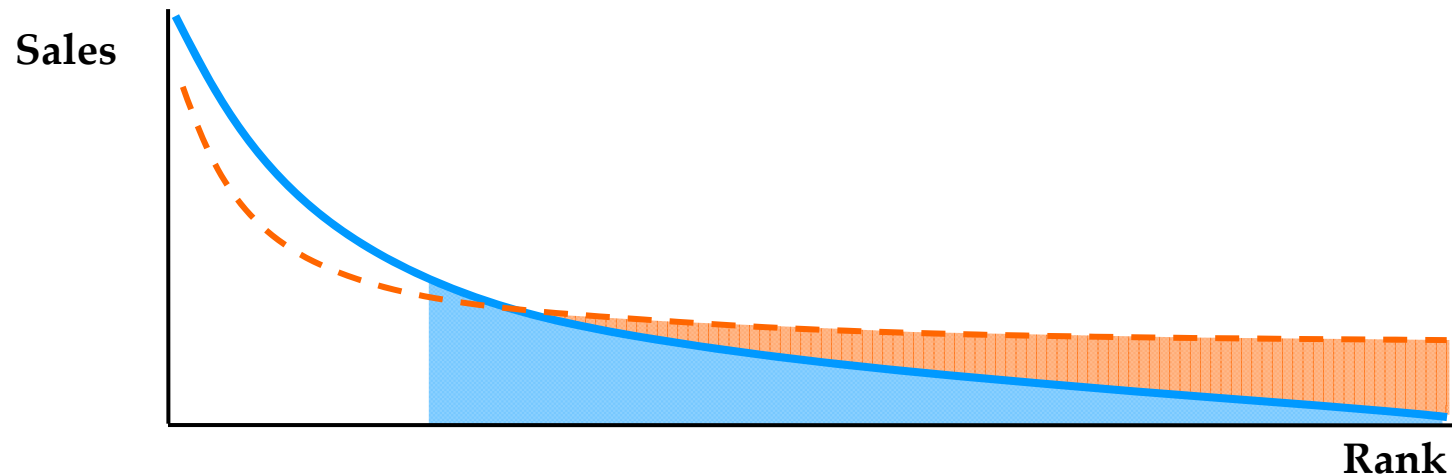


What Is The “Long Tail” Theory?

Anderson’s second idea:

Online channels change the shape of the demand curve because people value niche products (in the tail) more than those geared towards the masses (in the head)

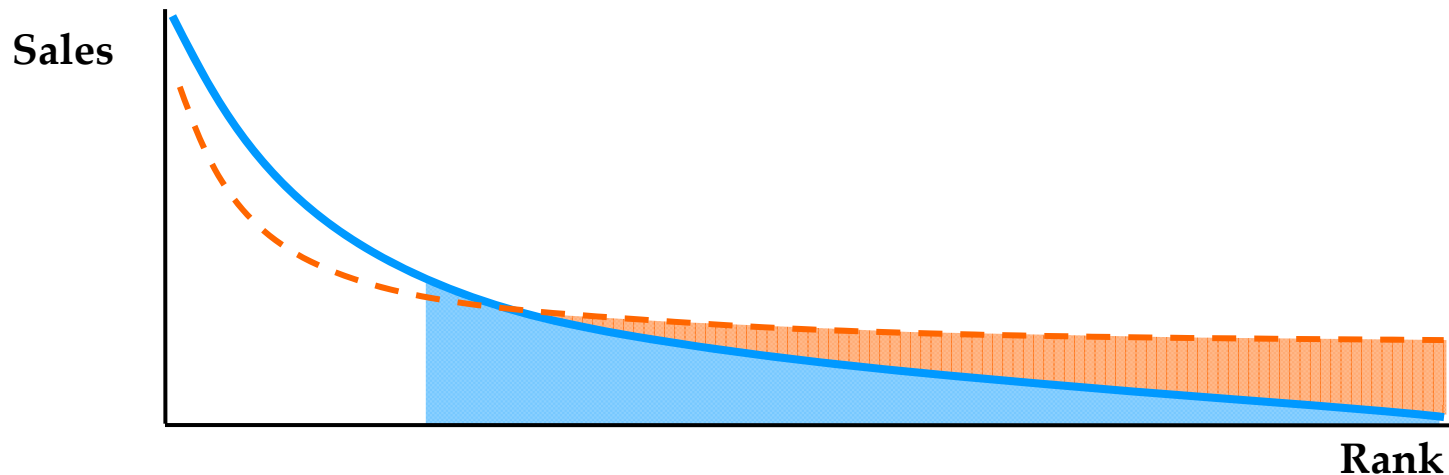
– the **tail** of the sales distribution is getting **fatter**




What Is The “Long Tail” Theory?

The result will have huge ramifications, according to Anderson:

“The potential aggregate size of the many small markets in goods that don’t individually sell well enough for traditional retail and broadcast distribution may rival that of the existing large market in goods that do cross that economic bar”





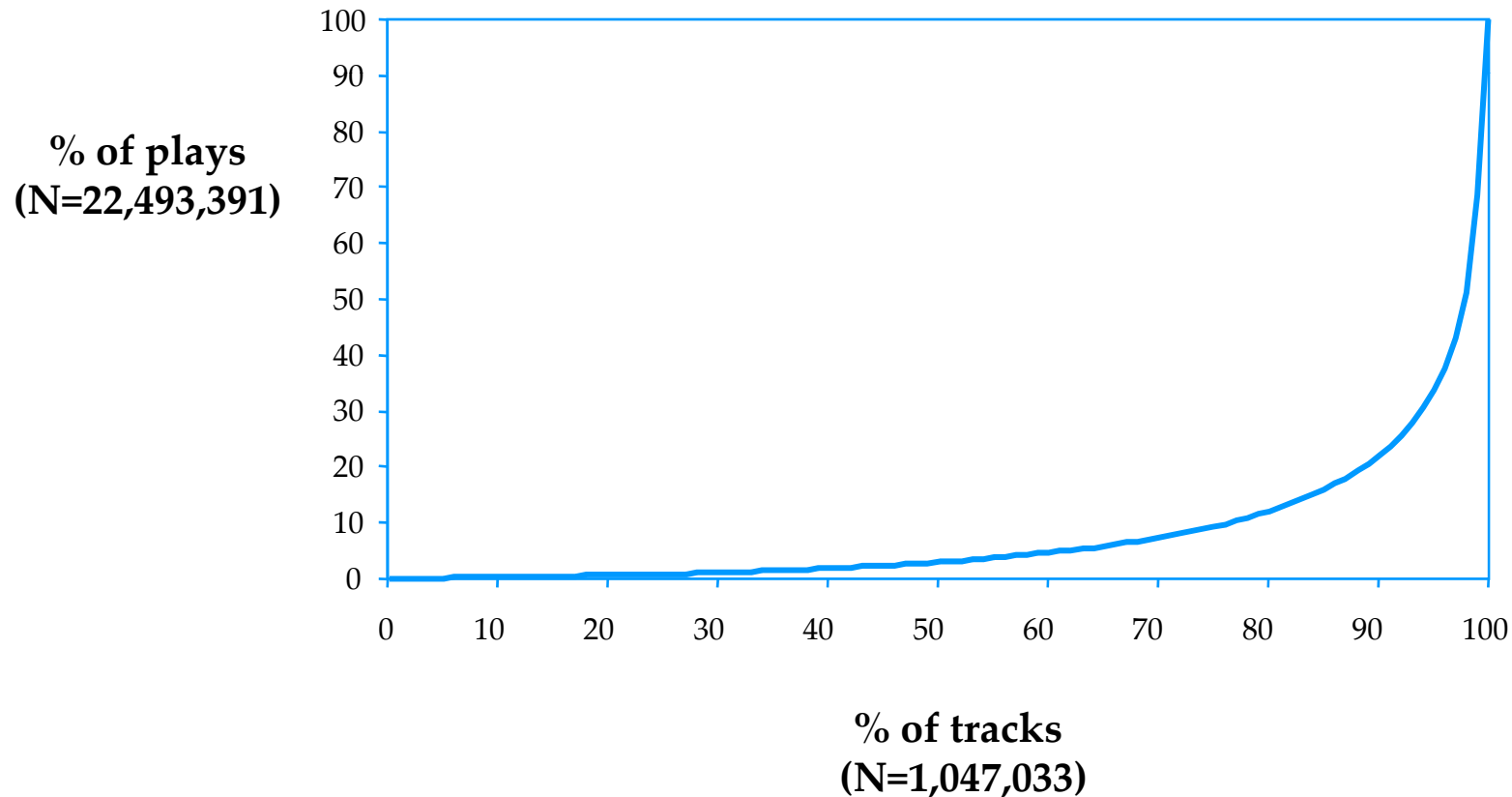
So... should publishers and retailers **stop relying**
on blockbusters, and focus on the profits
to be made from the tail?

My Research – Four Data Sources

Nielsen VideoScan:	weekly video sales January 2000 to August 2005 5,500 unique titles
Nielsen SoundScan:	weekly music sales January 2005 to March 2007 3,500 artists
Rhapsody:	U.S. music subscription service August to October 2006 22 million individual transactions
Quickflix:	Australian online DVD rental service January to August 2006 320,000 individual transactions

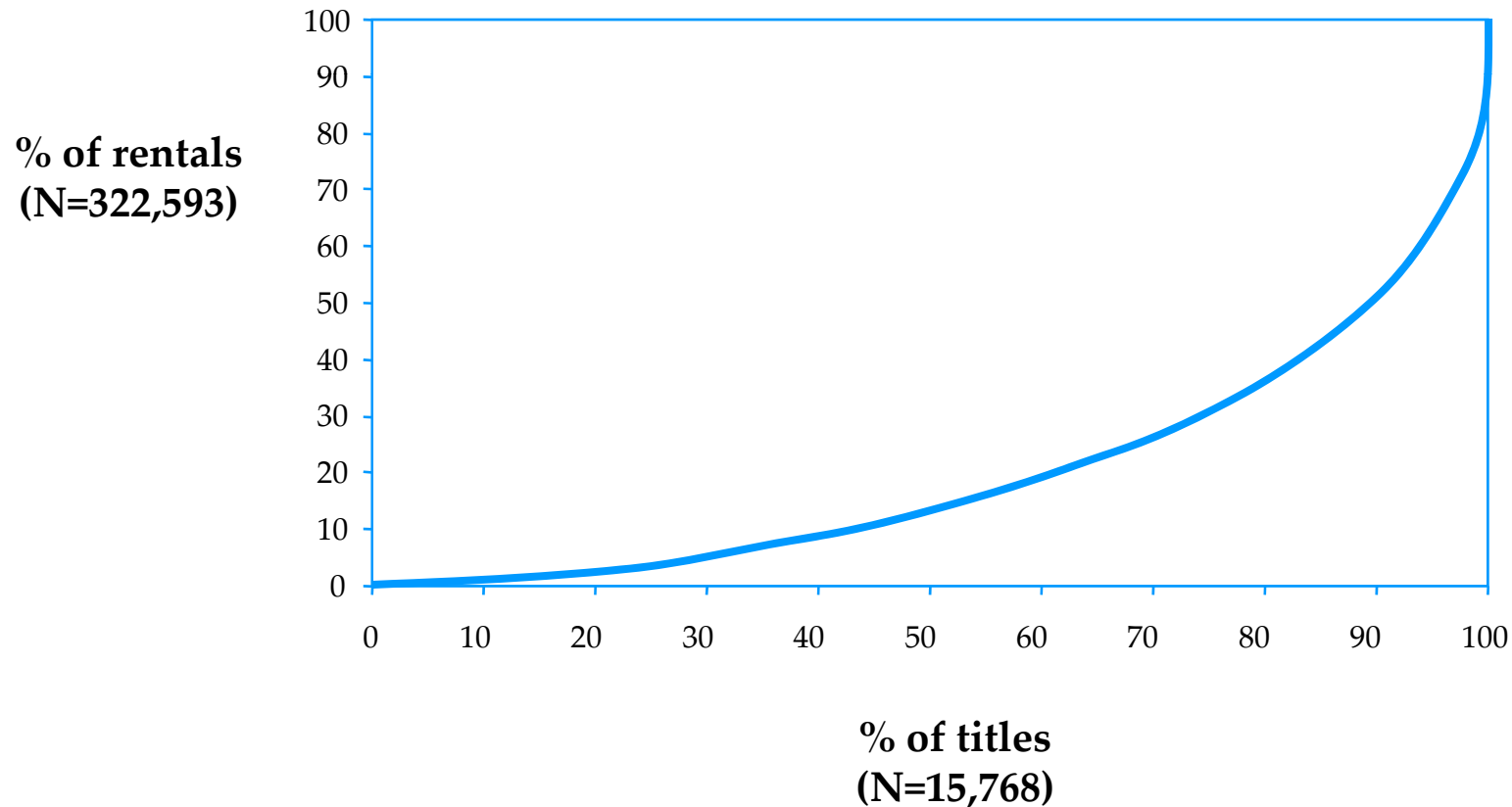
The (New) Shape of Consumption

A snapshot of Rhapsody's music selections:



The (New) Shape of Consumption

A snapshot of Quickflix's DVD selections:



The (New) Shape of Consumption

But is the tail getting longer and fatter?

Longer? Yes.

Fatter? No.

In fact, there is a rapidly increasing number of titles that never, or very rarely, sell

—the tail is **long** but incredibly **flat**

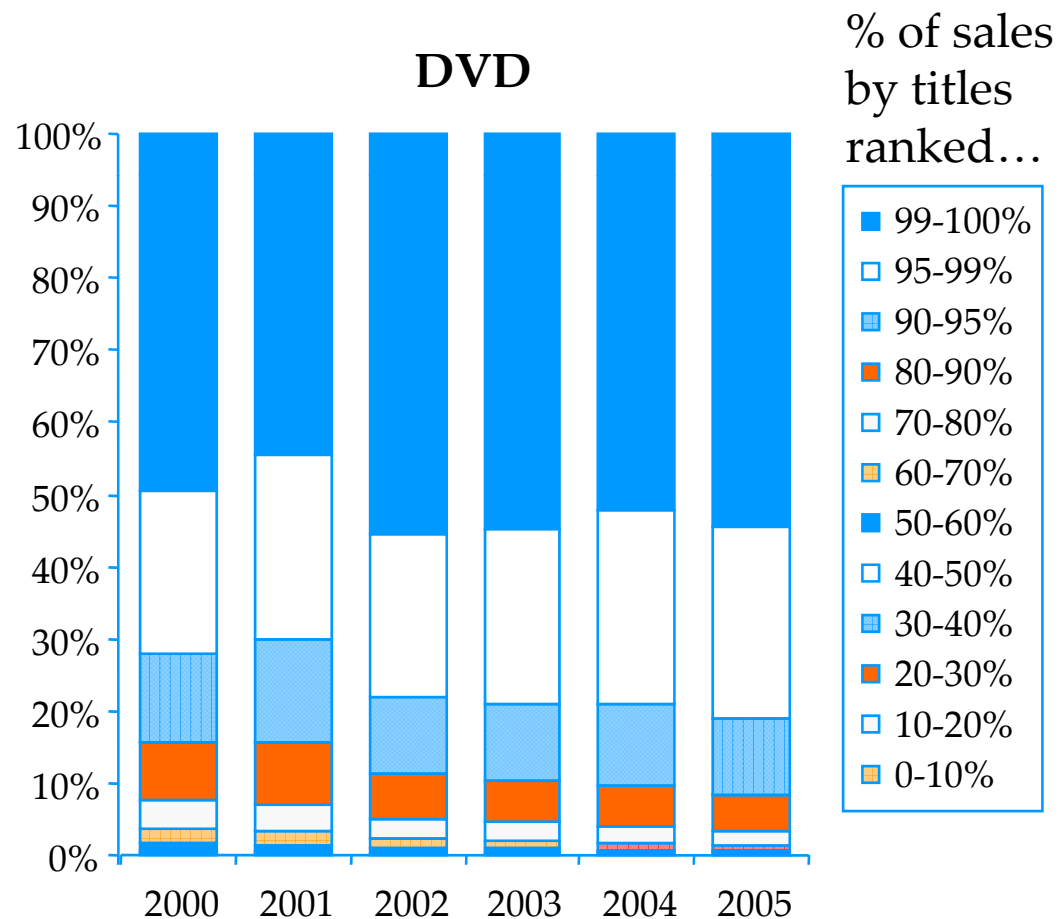
The (New) Shape of Consumption

Consider the pattern for DVD sales in absolute numbers:

	1%	5%	10%	25%	50%	75%	90%	95%	99%
2000	3	7	22	101	636	2,833	11,087	25,686	141,451
2001	1	5	14	74	531	2,864	9,889	20,870	118,734
2002	1	6	17	77	513	2,745	9,775	22,705	99,607
2003	0	6	20	94	494	2,271	8,287	19,254	157,707
2004	0	4	12	55	306	1,768	7,293	18,285	113,413
AUG-2005	0	1	4	24	150	847	4,450	12,833	86,828

The (New) Shape of Consumption

Or the same sales expressed in relative terms:





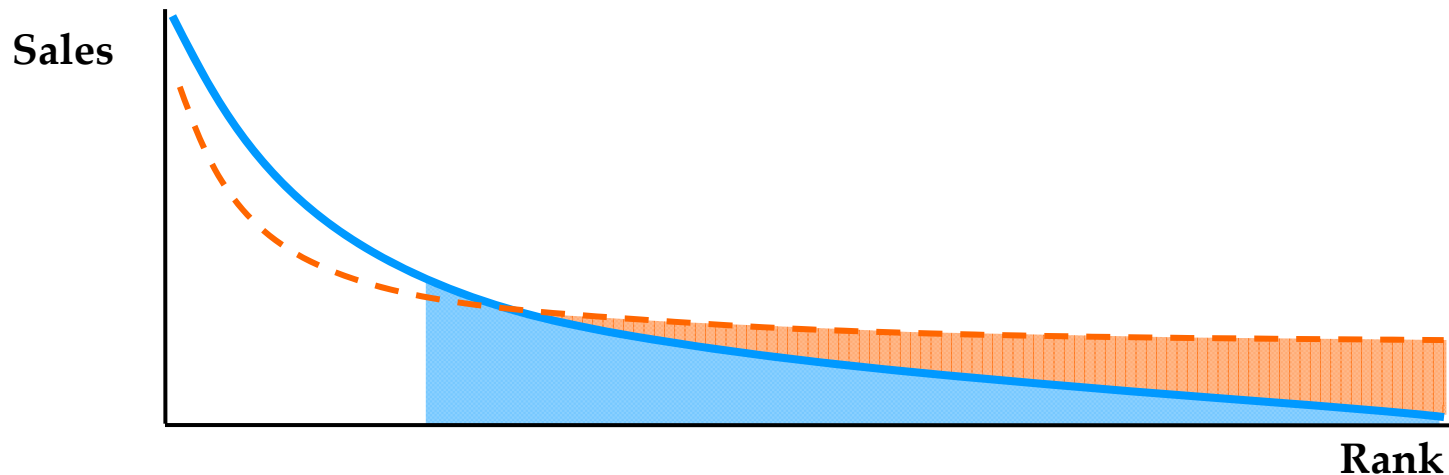
Who is responsible for
the volume of business in the tail?

And will larger numbers of customers
develop a **fondness** for the products in it?

The “Long Tail” Theory

Anderson expects customers to move away from the blockbusters — and appreciate obscure offerings more:

“We’re leaving the watercooler era, when most of us listened, watched, and read from the same, relatively small pool of mostly hit content and we’re entering the micro-culture era, when we’re all into different things.”



A Taste For Obscurity?

But two old “laws” of consumer behavior suggest otherwise:

“Natural monopoly”

“The most popular product gets not only more raw numbers of people of otherwise marginal participation in the field, but a disproportionate share of its audience consists of just such marginal people”

→ Light users of a product category are a relatively large proportion of the customers of the more popular products

A Taste For Obscurity?

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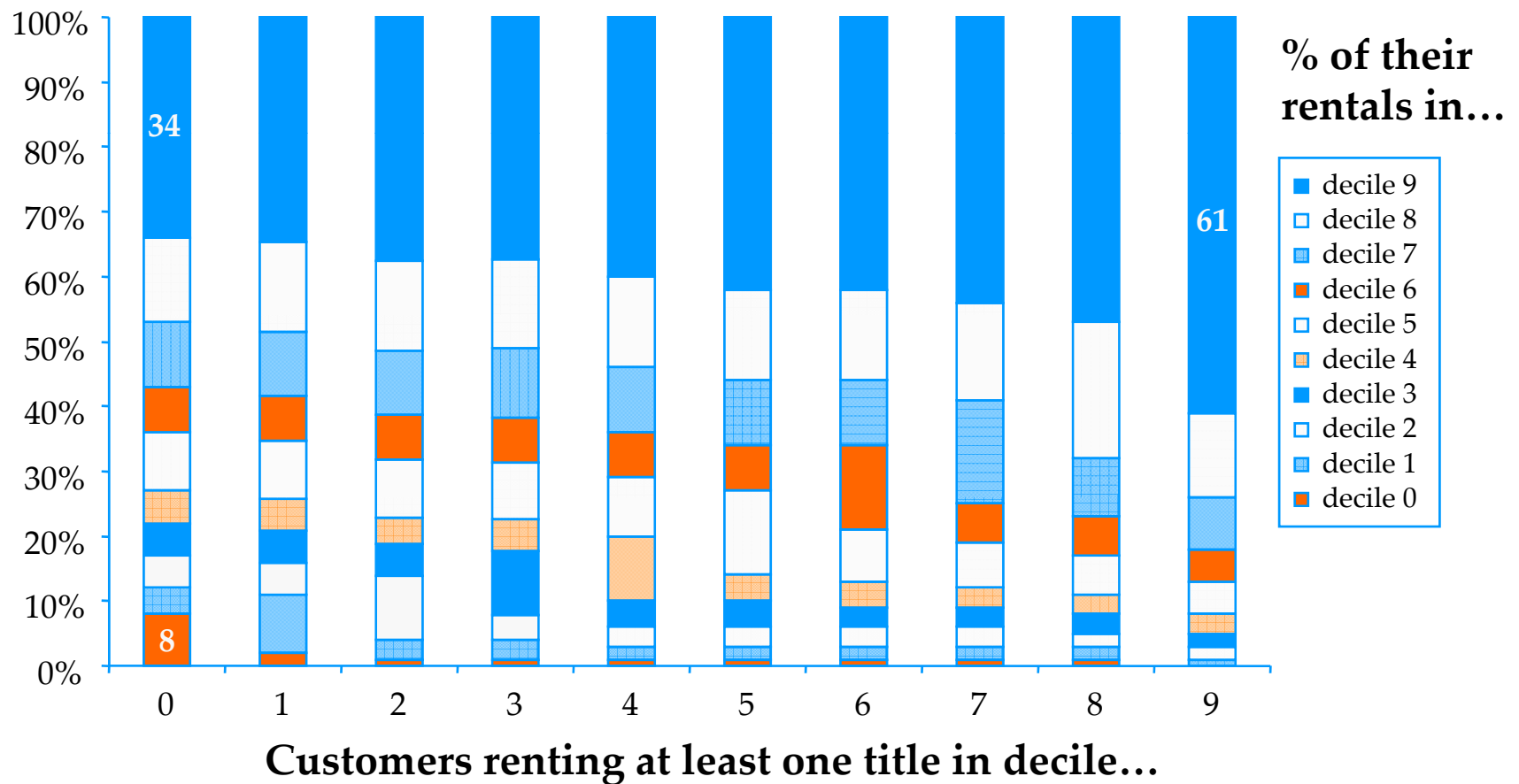
“Double jeopardy”

“The larger the proportion of a population which is not familiar with a given alternative, then the less likely are those in the population who are familiar with it to like it especially”

- Niche products have a double disadvantage:
- (1) They are not well known
 - (2) When they finally become known, their customers consist of people “who know better” – they like the more popular products more

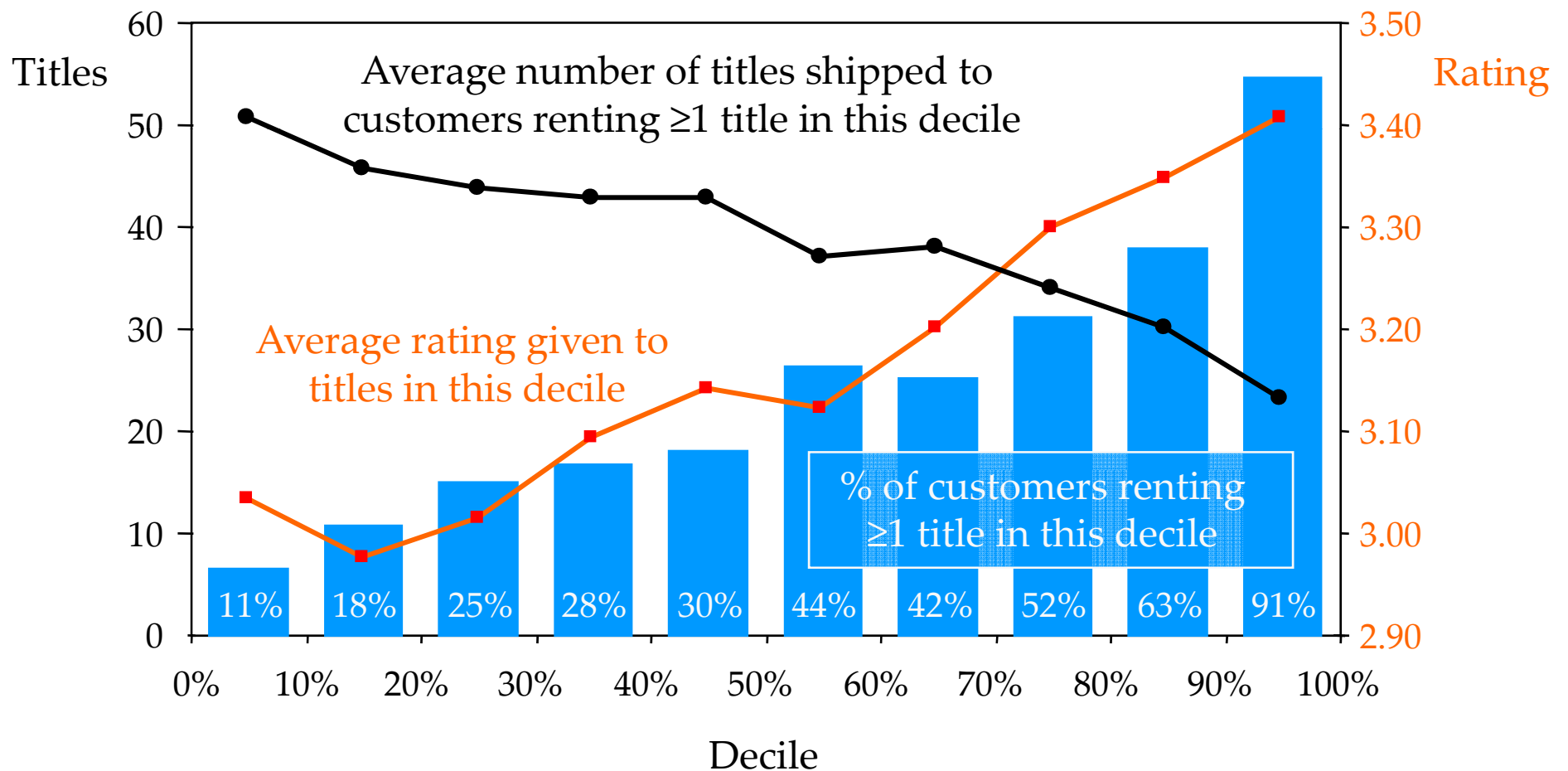
A Taste For Obscurity?

The Quickflix data show the natural monopoly phenomenon...



A Taste For Obscurity?

... as well the double jeopardy "law":



A Taste For Obscurity?

Online channels have significantly broadened customer access to niche products

But, mostly, the old laws of consumer behavior still apply:

Hits are still **dominant**:

Even for consumers who venture deep into the tail, more popular titles constitute the lion's share of titles consumed

Hits are **liked better**:

Consumers of obscure titles like those less than more popular titles

Advice for Publishers

Do **not radically alter** current resource allocation or product portfolio management strategies.

One or more winners still go a long way, and probably even further than before.

When producing **niche goods** intended for the tail end of the distribution, **keep costs** extremely **low**.

The odds of success are not favorable here either, and they will likely become less so.

Advice for (Online) Retailers

If the goal is to cater to your **heavy customers**, broaden your assortment with more **niche** products.

Strictly manage the costs of offering products that will rarely sell.

And **resist the temptation** to direct customers to the tail too often, or you'll risk their dissatisfaction.

A photograph of the Harvard Business School building, featuring classical architecture with columns and a pediment. The scene is overlaid with a blue color filter. In the foreground, there are branches with autumn leaves in shades of orange, yellow, and red. The text "HARVARD | BUSINESS | SCHOOL" is centered across the middle of the image in white, uppercase letters, with vertical red lines separating the words.

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Thank You!

More information?
Email: aelberse@hbs.edu
Web: www.anitaelberse.com

For more details about the study, please see:

Anita Elberse, "Should You Invest in the Long Tail?"
HBS Centennial Issue, Harvard Business Review 86,
nos. 7/8 (July - August 2008), pages 88-96.