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Chasing the Long Tail

Is niche content really a bigger market opportunity than blockbusters?

By Jim Hinckley

The commercial was an instant classic: The front desk clerk at Roy's Motel tells a guest, "We have every movie ever made, in every language, any time, night or day." The premise behind the turn-of-this-century commercial for Qwest is now a familiar one — the cheaper and bigger that broadband pipes get, the easier it becomes to offer access to any content that can be digitized.

But Qwest's commercial also attracted notice outside of the telecom industry. One example is San Jose State University's School of Journalism and Mass Communications, where instructor Steve Sloan uses it to teach students about the "Long Tail." The Long Tail is a widely held theory that obscure, niche, older or even unpopular content — be they movies, books or music — can be a significant source of revenue for consumer-focused businesses, including service providers, cable operators and wireless operators.

"Although the Long Tail is just beginning to gain widespread attention in telecom circles, we see it as having the potential to 'change the game,'" said Mike O'Malley, director of external marketing at Tellabs. "It could open up new sources of revenue for digital network operators, especially as technology continues to drive down the costs of storing and transmitting content."

The Long Tail's Short History

The Long Tail phenomenon has already had a major impact on the consumer market for books, music and movies, but seems certain to eventually transform all industries that package or sell digital content of any kind. Even companies whose products or services can't be delivered via the Internet need to factor the Long Tail into their planning and marketing efforts. Consumers are increasingly able and willing to embrace alternatives to mainstream products, and resellers now have the capability to proactively deliver them.

Coined by Chris Anderson in an October 2004 *Wired* magazine article, "Long Tail" refers to the lower half of the curve typically seen on graphs relating retail sales volume (the vertical axis) to volume of products sold (the horizontal axis). (See graphic on page 3.) Although a small number of high-ranking products — often known as "hits"— traditionally have delivered the majority of sales volume, Anderson argued that the larger pool of much-less-popular items (represented by the long, yellow "tail" in the graph) can collectively make up a significant share of total sales revenue.

In some cases, the less-popular items already rival or outsell the hits, thanks to the new realities of e-commerce and Internet technology. These realities include:

- **LOWER-COST STORAGE** — Like any retail store, bricks-and-mortar video stores have limited space, which means they can't afford to carry many "unpopular" titles. Even if the store is part of a chain with hundreds of locations, every square foot of each outlet must feature as many of the best-selling items as possible.

  By comparison a Web-only retailer such as Netflix, which ships DVDs nationwide from 46 warehouses, can afford to carry some 85,000 titles, thus catering to the demand for less-mainstream films. If a Web retailer's products are purely digital, such as in the case of the music files sold by iTunes, warehousing and shipping expenses are replaced by the far lower cost of servers and other Internet technology.
- **LOWER-COST, FASTER DISTRIBUTION** — Delivering digital products over the Web — through streaming, hyperlinking and other technologies — is not only less expensive than physical shipping, it is also much faster. This combination of low cost and get-it-now speed encourages impulse buys, including content about which a consumer may know little or nothing. All the while, the e-tailer benefits from sharply lower distribution costs.
- **AGGREGATION OF GEOGRAPHICALLY DISPERSED NICHES** — A physical retail store is highly reliant on its local market. If there is not enough demand near the store for a given item, or for a particular brand or variety of that item, the store cannot justify carrying it. In contrast, online retailers can offer a larger selection of niche products because the Web effectively turns many small, geographically scattered audiences into one larger market.
- **SEARCH/FILTERING TOOLS** — As big-box and warehouse-style retail stores grow ever larger to accommodate more product choices — and the number of knowledgeable sales associates dwindles at the same time — finding a specific product in these stores can be more challenging than ever. In contrast, the sophisticated search and filtering tools on major retail websites such as Amazon.com enable users to quickly locate even hard-to-find products. Consumers can also easily filter the search results by criteria such as brand, size, color and price.
- **RELEVANT RECOMMENDATIONS** — With the ability to accurately and instantly recommend items similar to what the user searched for, Amazon and other retail websites have created a market for little-known books and niche products that most consumers would never have been aware of or found in bricks-and-mortar stores. These items are also lifted from obscurity by user-generated reviews, both on these sites and on countless special-interest blogs that turn up on search engine results pages.

How Real Is The Long Tail?

Do these developments really add up to a sea change in the market for music, books, movies and other digital content? Isn't the well-established Pareto Principle — only 20% of your products generate 80% of your revenue — still firmly in control?

Because the Long Tail is still such a new concept, there is not yet a large body of research on how it affects specific retail categories and business models. But there are some notable real-world cases. One is Netflix, which consistently finds that niche movies in aggregate are rented more often than popular ones.

Another example is Rhapsody, a subscription-based streaming music service owned by Real Networks that now offers more than a million tracks. In his *Wired* article, Anderson wrote, "Rhapsody's monthly statistics…look much like any record store's, with huge [sales] for the top tracks, tailing off quickly for less popular ones." The surprise, Anderson noted, is that "not only is every one of Rhapsody's top 100,000 tracks streamed (that is, purchased) at least once a month, the same is true for its top 200,000, top 300,000 and top 400,000. As fast as Rhapsody adds tracks to its library, those songs find an audience, even if it's just a few people a month."

Although that might seem like great news for anyone operating a digital network — including service providers, cable operators and wireless operators — the Long Tail does not guarantee increased sales, profits or market share. Just ask Harvard Business School professors Anita Elberse and Felix Oberholzer-Gee, authors of the 2006 working paper, "Superstars and Underdogs: An Examination of the Long Tail Phenomenon in Video Sales." They found that both the Long Tail and "the superstar category" — their term for the head of the sales curve — are mixed bags at best, with certain types of films selling better in each half of the curve.

Studying the distribution of sales and revenues in the U.S. home video industry from 2000 to 2005, the two researchers found that the number of titles selling only a few copies each week doubled — but the number that did not sell at all quadrupled over the same five-year period. Just as sobering was their finding that sales in the superstar category had become more concentrated and less numerous. From 2000 to 2005, the number of titles in the top 10% of video sales was cut in half, and "the level of sales that today's [i.e., 2005's] blockbusters achieve is disappointing when compared with earlier hits."

Nonetheless, Elberse seemed to be urging retailers to embrace the Long Tail and shift their selling efforts to the Internet in saying: "As a retailer, you should expect that many titles will not sell at all, or in very small quantities, and [you should] organize accordingly."

As for what sells better at each end of the curve, the researchers found that comedies, dramas, documentaries and foreign films have more success at the tail of the curve than at the head. Meanwhile, the two genres producing the best numbers at the head of the curve are an odd couple — R-rated movies and children's titles — and seem to be there with good reason. For years, Hollywood has aimed its biggest releases at the two audiences who go to the movies most: Males in their late teens and 20s who love action and raunchy humor — in other words, R-rated films — and families with young children, who flock to animated films and kid-friendly franchises such as *Harry Potter*.

The Telecom Opportunity

The obvious question for digital network operators is how to capitalize on the Long Tail phenomenon. Increasing the breadth and depth of digital content choices is one way, but the devil is in the details. Key questions for operators to consider include:

- What and how much of this new Long Tail content should be offered on a pay-per-single-use basis versus as unlimited-use bundles for flat monthly fees? What (if any) of it should simply be added to the customer's existing channel lineup at no additional charge, as a strategy to retain customers via customization?
- Consumers not only want non-mainstream content, but they are already comfortable searching for it even in the vast, unorganized space of the Web. So how worthwhile is it for network operators to target certain types of Long Tail content at specific customer niches?
- The large and growing appetite for non-mainstream fare — as verified by sites such as Amazon and Rhapsody — implies that operators should offer as much content as possible, at least in established categories such as music and books. But Harvard Business School professor John Gourville and other researchers have found that people can become so overwhelmed by a variety of product choices that they sometimes end up buying nothing. How can operators find the sweet spot between these two challenges?

Renato Scaff, executive partner of the retail practice at Accenture, has helped several clients develop and implement strategies based on the Long Tail and issues related to it. On the question of offering niche content à la carte versus bundling it with more popular programming, he argues: "From a Long Tail perspective, the à la carte option would be what consumers would pick, all else being equal. It gives consumers the power to choose and allows the operator to create the relationship that they seek with their customers. At the same time, I think continuously gathering customer insights and creating niche-specific bundles [based on those insights] would nevertheless make sense. Bundles like those could drive top-line sales growth because they are proactive in nature — they show that the operator is trying to create the most customized experience possible for the consumer."

No matter how they choose to approach the Long Tail opportunity, network operators benefit from the fact that virtually their entire content can be stored and delivered to consumers digitally, an advantage not enjoyed by all industries. As network upgrades and technology advances continue, it should become even more feasible for operators to offer consumers both a wider variety and a deeper selection of content choices. Savvy operators will keep in mind that consumers almost always gravitate toward products in the Long Tail only if they first have some interest in the hits of the same category.

Yes, the Internet and other developments are fragmenting markets into millions of niches. Fortunately, with the right technology — and the right technology partners — network operators can respond strategically and, in the long run, profit from the Long Tail.

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