

# The Long Tail

**“Long Tail Business Models are about selling less of more by focussing on offering a large amount of niche products, while each item sells relatively infrequently.”<sup>1)</sup>**

Aggregate sales of niche products can be as profitable as the traditional sales model, where a small amount of bestsellers account for most revenues. Long Tail business models benefit from low [inventory](#) costs and require strong platforms to make niche content available to interested buyers.

## Theory in Short

In his 2006 bestseller “The Long Tail: Why the Future of Business Is Selling Less of More”, Chris Anderson describes a shift in the media business from selling a few “hit-items” in large volumes toward selling a very large number of niche items, each in relatively small quantities. Although Anderson’s research focuses primarily on the media industry, he demonstrates that the Long Tail concept is applicable to other branches as well. The success of the online auction site [Ebay](#) is based on a lot of auctioneers selling and buying small quantities of “non-hit” items.

Anderson illustrates how many infrequent sales can produce aggregate revenues equivalent to or even exceeding revenues by focusing on hit products. He sees three reasons for the rise of this phenomenon in the media industry<sup>2)</sup>:

### 1. Democratization of tools of production

Decreasing technology costs give individuals access to tools that were extremely expensive just a few years ago. Passionate amateurs worldwide can now record music, produce films and create software with professional results.

### 2. Democratization of distribution

The Internet has made digital content an article of daily use, and in this way it dramatically lowered inventory, transaction costs, and communication processes, opening up new markets for niche products.

### 3. Declining Search costs to connect supply with demand

The real challenge of selling niche content is finding interested potential buyers. Powerful search and recommendation engines, user ratings, and communities of interest have considerably facilitated this process.

## Implications for Strategy

It is undeniable that online [commerce](#) has significantly broadened customers’ access to products of all varieties, and the Long Tail theory increasingly influences the development and appraisal of business models, particularly in the media and entertainment sector. However, latest research shows that Andersons’ theory has different consequences for producers and retailers, leading to different strategy advice to both groups<sup>3)</sup>:

## Producers

1. Don't radically modify traditional blockbuster resource allocation or product-portfolio management strategies as "hit-items" don't lose their relevance.
2. When producing niche goods for the tail end of the distribution, keep costs as low as possible. The odds of success aren't favourable here and will probably decrease.
3. When trying to strengthen your presence in digital channels, focus your marketing spendings on your most popular products.
4. Take advantage of your companies' scale to improve online exposure and demand for products across your product portfolio. Again, hit products play a key role here.

## Retailers

1. If the goal is to maintain your heavy customers, extend your assortment with more [niche products](#), as particularly this target group has a strong interest in less popular products.
2. Strictly manage the costs of offering products that will rarely sell. If possible, use online networks to construct creative models, in which you incur costs only, if the customer actually initiates a transaction.
3. Use your most popular products for acquisition of customers and [CRM](#).
4. Even though niche products may have a higher profit margin, resist the temptation to direct customers to the tail too often, or you'll risk their dissatisfaction.

# Best Practice

Two good examples that illustrate the Long Tail business model are:

- [LEGO Factory](#)

In 2005, LEGO started experimenting with user-generated content by introducing LEGO Factory, which allows customers to assemble their very own LEGO kits and order them online.

- [Lulu.com](#)

Lulu.com's business model is based on helping niche and amateur authors bring their work to the market. In this way, it eliminates traditional entry barriers by providing authors the tools to design, print, and distribute their work through an online marketplace.

# Literature References

- Anderson, Chris (2006), "The Long Tail: Why the Future of Business is Selling Less of More", Hyperion, July 11, 2006

- Anderson, Chris (2007), "The Long Tail - Der Lange Schwanz", Carl Hanser Verlag, München
- Elberse, Anita (2008, August), "Das Märchen vom Long Tail", Harvard Business Manager, pp. 32-44
- Osterwalder, Alexander and Pigneur, Yves (2011), "Business Model Generation", Campus Verlag, Frankfurt am Main

## Further Information

For more information on the Long Tail business model click here:

- [The Long Tail](#)
- [Focus Online](#)

<sup>1)</sup>

Osterwalder, Pigneur, p. 71

<sup>2)</sup>

Anderson, pp. 61-67

<sup>3)</sup>

Elberse, pp. 41-43

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