

# **THE LONG TAIL**

## **Why the Future of Business is Selling Less of More**

**CHRIS ANDERSON**

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The Web site for this book is at [www.thelongtail.com](http://www.thelongtail.com).

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**MAIN IDEA**

The real mother lode of commercial success for twenty-first century businesses will be in multiple-niche marketing rather than trying to score a few mass market hits. The economy and our culture is evolving from focusing on mass markets to aggregating millions of niches into markets which end up being larger when combined than the traditional mass markets.

A new business model is arising based on the economics of abundance rather than scarcity. This new model rests on the idea it will be better and more profitable to sell a few copies each into a million niche markets than it will be to try and develop one product which you sell two or three million copies. The great success stories of the future will be the companies which are aligned with the long tail of the demand curve rather than those which bring hit products to market.

*“The theory of the Long Tail can be boiled down to this: Our culture and economy are increasingly shifting away from a focus on a relatively small number of hits (mainstream products and markets) at the head of the demand curve, and moving towards a huge number of niches in the tail. In an era without the constraints of physical shelf space and other bottlenecks of distribution, narrowly targeted goods and services can be as economically attractive as mainstream fare. When you can dramatically lower the costs of connecting supply and demand, it changes not just the numbers, but the entire nature of the market. This is not just a quantitative change, but a qualitative one, too. Bringing niches within reach reveals latent demand for noncommercial content. Then, as demand shifts towards the niches, the economics of providing them improve further, and so on, creating a positive feedback loop that will transform entire industries – and the culture – for decades to come. We are turning from a mass market into a niche nation, defined now not by our geography but by our interests.”*

– Chris Anderson

**1. What is the “long tail” concept? . . . . . Pages 2 - 3**

For many product categories, smart technology is transforming mass markets into millions of small niche markets. Although each of these niche markets may be small, when all the various niches are combined, the volume of business is actually greater than the traditional mass market successes. Thus, the great commercial opportunity of the future isn't catering to the “short head” of the demand curve where multiple copies of the same product are sold. Instead, the real opportunity to move forward lies in serving the “long tail” of the same curve – the millions of various niche markets.

**2. The driving forces behind the long tail phenomena . . . . . Pages 3 - 4**

In a nutshell long tails emerge in an industry whenever the cost of reaching niches gets reduced to a very low level. There are three powerful forces which can cause these costs to fall:

1. The tools of production become more widely available.
2. The costs of distribution are cut appreciably.
3. Some way of connecting supply and demand is established.

Whenever these three forces are present in an industry, look for a long tail to emerge as the driving force of commerce.

**3. Doing business in a long tail economy . . . . . Pages 5 - 6**

No matter whether you're starting from scratch or facing the emergence of the long tail economy with a multi-billion-dollar business, the fact is things are going to be different in the future.

It helps if you keep in mind a few basic ideas and concepts about the realities of the long tail economy:

1. Always think in terms of abundance, not scarcity.
2. Blockbusters will still come along, they are here to stay.
3. The niche revolution will reach every industry.

The sooner you accept these realities and start working with them rather than against them, the better positioned you will be. Regardless of whether you're ready or not, the long tail economy is just about to move to center stage. There's no point delaying the inevitable. It's time to get on the bandwagon.

**4. The nine rules of success for long tail businesses . . . . . Pages 7 - 8**

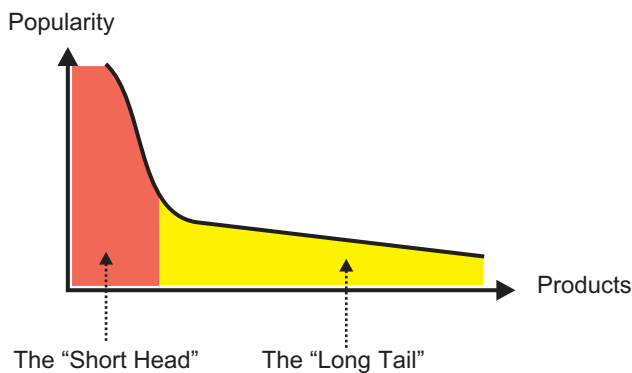
The secret to commercial success in an economy dominated by long tail economics can be encapsulated in two imperatives:

1. Make everything you have to offer available.
2. Help people find what they want.

In practice, successful long tail businesses will treat consumers as individuals, not as part of some arbitrary demographic group. Mass customization will be at the heart of the businesses which thrive under these marketplace conditions.

1. What is the "Long Tail" concept?

For many product categories, smart technology is transforming mass markets into millions of small niche markets. Although each of these niche markets may be small, when all the various niches are combined, the volume of business is actually greater than the traditional mass market successes. Thus, the great commercial opportunity of the future isn't catering to the "short head" of the demand curve where multiple copies of the same product are sold. Instead, the real opportunity to move forward lies in serving the "long tail" of the same curve – the millions of various niche markets.



Until now, the driving force of commerce has been companies trying to develop products which will sell in their millions. This is short head thinking – so named because it focuses on the high popularity items at the left-hand side of the demand curve. Focusing on developing and then marketing hit products has always made good economic sense because:

- *Physical distribution systems only have a finite amount of capacity or "shelf space" available* – so the owners of the distribution systems want to maximize the volume of goods they handle. There is an ingrained economic imperative, therefore, to send only the most popular products through the distribution system.
- *Broadcast networks only have a set amount of bandwidth available* – and therefore they cater to middle-of-the-road or lowest-common-denominator tastes in order to maximize their reach and potential audience. They have to do this in order to appeal to as many advertisers as possible.
- *Economies of scale come to the fore in the physical world* – meaning retailers offer exceptionally good deals on just a relatively few of the best sellers. Products which will appeal to a smaller segment of the local market never even get a chance to be sold.
- *Constraints are imposed by geography and physical location* – which means only those products which will sell well locally will be handled by a store. A product which would sell very well in another part of the world won't be handled.

As a result of these and other factors, twentieth-century commerce has been dominated by:

- An intense search for one-size-fits-all products.
- Companies trying to predict demand for their goods.
- Products that don't sell immediately getting pulled quickly.
- A limited range of popular products being available.

With the arrival of the Internet and e-commerce, it has now become possible for stores to have unlimited "shelf space" because the goods exist not in a physical location but as descriptions on a Web site. This changes everything because it creates an era of unprecedented choice for consumers. When you have a store with unlimited shelf space, you can serve the long tail part of the demand curve.

The market dynamics of the long tail are completely different. In the physical world, you need to be selling lots of items to justify the cost of storage and distribution. There is an opportunity cost to manufacture, stock and have available goods. This is why physical stores have always focused on hit products. That imperative doesn't exist in the long tail part of the demand curve. Here, it doesn't matter if you just sell a few units of each product, as long as you sell products from enough distinctive niches. The combined sales of lots of niches can mount up very rapidly.

Consumers currently face the biggest explosion of variety in history. To take just a few representative examples:

- The advertising firm OMD has estimated there are 19,000 variations of Starbucks coffee available.
- Mintel International found in 2003 alone, 26,893 new food and household products were introduced. These new choices included 115 new deodorants, 187 new breakfast cereals and 303 new women's fragrances.
- iTunes now makes available to consumers more than 2 million songs which can be downloaded for listening in digital format.
- It isn't at all uncommon for grocery stores to now carry more than twenty different types of flour, ranging from whole wheat or organic varieties through to quite exotic blends like amaranth or blue cornmeal.

Why has there been such an explosion of variety in consumer offerings?

- *Globalization and highly efficient supply chains* – mean merchants physically located in one part of the world can sell to customers located elsewhere without any problems.
- *Demographics have changed* – with most cultures now having a greater mix of cultures and interests rather than having people with more uniform backgrounds.
- *Technology has improved* – allowing companies to carry far more product items in their catalogs because most of the items exist solely as descriptions in an electronic database.

The new marketplace reality is businesses have lots of stuff available for sale. There are more choices in every product category that exists.

*"Although we still obsess over hits, they are not quite the economic force they once were. Where are all those fickle consumers going instead? No single place. They are scattered to the winds as markets fragment into countless niches. The one big growth area is the Web, but it is an uncategorizable sea of millions of destinations, each defying in its own way the conventional logic of media and marketing."*

– Chris Anderson

*"The mass of niches has always existed, but as the cost of reaching it falls – consumers finding niche products, and niche products finding consumers – it's suddenly becoming a cultural and economic force to be reckoned with. The new niche market is not replacing the market of hits, just sharing the stage."*

– Chris Anderson

The long tail manifests itself as six general themes:

1. In almost every market, there are far more niche goods offered for sale than there are commercial hits. This ratio is currently growing exponentially as the tools of production become cheaper and more widely available.
2. The cost of reaching those niches is falling dramatically – thanks to digital distribution, powerful search technologies and widespread broadband availability. The result is it is now feasible for companies to offer a huge variety of products.
3. Simply offering more variety alone won't generate greater demand. Instead, consumers need to have tools which will help them find product niches which match their tastes and interests. These tools need to act as filters by simplifying the finding process.
4. Once there is an expanded variety of products available and filters in place, the product demand curve will flatten out. There will still be hits and niches but the difference between the two will become less marked.
5. The cumulative volume of business generated by a large number of niches can add up. In fact, in many categories, the collective volume of business generated by the niches exceeds that generated by the hits.
6. Once all of the long tail generated trends have played out fully, the natural shape of demand for products will emerge. To date, this curve has always been distorted by distribution bottlenecks, scarcity of information and the limits of available shelf space. When the true shape of demand is shown, it will end up being as diverse as the population itself.

To sum up, the long tail is culture unfiltered by economic scarcity.

*“Every time a new technology enables more choice, whether it's the VCR or the Internet, consumers clamor for it. Choice is simply what we want and, apparently, what we've always wanted.”*

– Chris Anderson

*“The great thing about broadcast is that it can bring one show to millions of people with unmatched efficiency. But it can't do the opposite – bring a million shows to one person each. Yet that is exactly what the Internet does so well. The economics of the broadcast era required hit shows – big buckets – to catch huge audiences. The economics of the broadband era are reversed. Serving the same stream to millions of people at the same time is hugely expensive and wasteful for a distribution network optimized for point-to-point communications. There's still demand for big cultural buckets, but they're no longer the only market. The hits now compete with an infinite number of niche markets, of any size. And consumers are increasingly favoring the one with the most choice. The era of one-size-fits-all is ending, and in its place is something new, a market of multitudes.”*

– Chris Anderson

*“For a century, we have winnowed out all but the best-sellers to make the most efficient use of costly shelf space, screens, channels, and attention. Now, in a new era of networked consumers and digital everything, the economics of such distribution are changing radically as the Internet absorbs each industry it touches, becoming store, theater, and broadcaster at a fraction of the traditional cost. Many of these products have always been there, just not visible or easy to find. The invisible market has turned visible.”*

– Chris Anderson

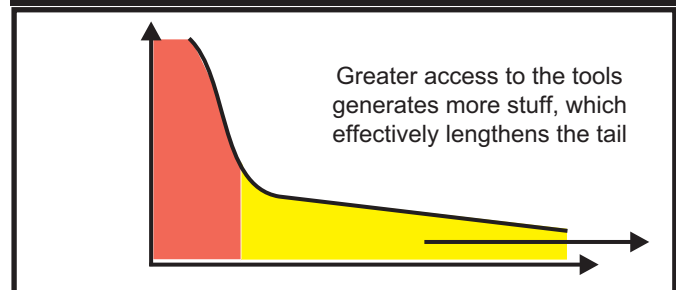
## 2. The driving forces behind the long tail phenomena

In a nutshell long tails emerge in an industry whenever the cost of reaching niches gets reduced to a very low level. There are three powerful forces which can cause these costs to fall:

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### Force #1 – Democratization of the tools of production



The first driving force behind the long tail phenomena occurs when the tools of production become affordable and therefore accessible by more people. A good example of this is the personal computer which has put many different tools in the hands of everyone rather than being restricted to professionals. Armed with a PC and the right software, people can make a short film, publish their thoughts or do many things which were impossible just a few years ago.

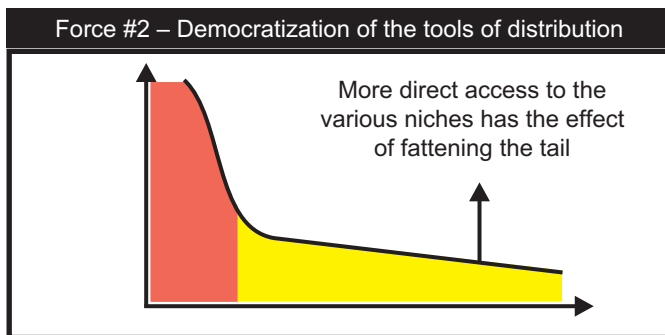
The music industry is a good example of this driving force. Nowadays, anyone with a PC can record their own music, package it in an album and upload it to somewhere like MySpace for people to listen to and buy. The number of new albums released in 2005 grew a phenomenal 36-percent largely due to the widespread availability of authoring tools.

Products now available which democratize the production of new material include:

- Digital video cameras
- Desktop music editing software
- Desktop video editing software
- Tools for writing and maintaining blogs
- Desktop publishing software
- Desktop photo editing software and printers
- Open-sourced projects like Wikipedia, an online encyclopedia

*“Up at the head, where products benefit from the powerful, but expensive, channels of mass-market distribution, business considerations rule. Money drives the process. Down in the tail, where distribution and production costs are low, business considerations are often secondary. Instead, people create for a variety of other reasons – expression, fun, experimentation, and so on. The reason one might call it an economy at all is that there is another coin of the realm that can be every bit as motivating as money: reputation. Measured by the amount of attention a product attracts, reputation can be converted into other things of value: jobs, tenure, audiences and lucrative offers of all sorts.”*

– Chris Anderson



The second driving force is cutting the costs of consumption by making the tools of distribution more widely available. Obviously, producing original content only becomes meaningful and useful if it is possible for others to enjoy it. The PC has opened the way for everyone to be a producer or publisher and the Internet has made everyone a distributor.

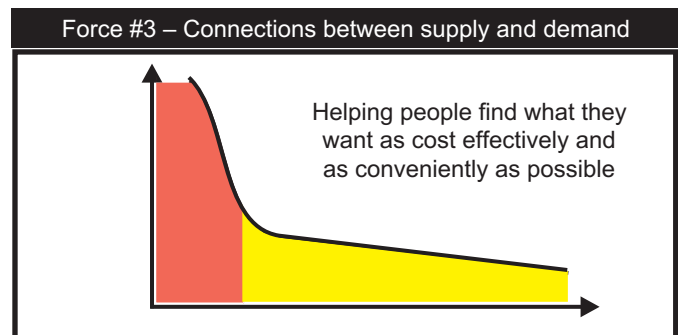
In the physical world, delivering anything is a major logistical exercise. You need trucks, warehouses and shelves not to mention loads of inventory in every size you plan on offering. Wal-Mart has spent billions of dollars and decades to build a sophisticated supply chain which offers a massive variety of goods to millions of customers around the world. Today, however, anybody with an Internet connection can reach a market every bit as big with a listing on eBay.

Various types of “aggregators” have emerged as the distributors of the long tail economy. An aggregator is a company or service which collects a large variety of goods and then makes them easy to find. Aggregators typically fall in one of five categories:

1. *Physical goods* – companies like eBay and Amazon. These companies sell physical and digital goods online, either for themselves or on behalf of other people. Amazon actually started out as a hybrid retailer selling physical goods online without the usual retail overheads. The company then moved further down the tail of the demand curve by introducing its “Marketplace” program in 1999. This allows retailers of any size to set up a storefront within the Amazon Web site. Amazon has therefore become a pure digital retailer, generating the business but not handling the physical goods itself. By the end of 2004, Amazon had more than 100,000 Marketplace sellers and was generating in excess of 40-percent of the company’s total sales volume through these third-party transactions.
2. *Digital goods* – companies like iTunes or iFilm. These companies keep their inventory in digital format and deliver it on demand. Each product is in effect a database entry costing nothing to store or deliver. Digital retailers base all transactions on bits rather than atoms.
3. *Advertising services* – companies like Google or Craigslist.
4. *Information providers* – like Google or Wikipedia.
5. *Communities of user-created content* – such as MySpace or Bloglines.

*“The Internet simply makes it cheaper to reach more people, effectively increasing the liquidity of the market in the Tail. That, in turn, translates to more consumption, effectively raising the sales line and increasing the area under the curve.”*

– Chris Anderson



The third driving force of the long tail phenomena is the emergence of a wide variety of connections between these newly available goods and the people who are willing to pay for them. These connections can take many forms, and currently include services like:

- *Google’s ranking of popularity of searches* – which is derived from watching what millions of customers do and then translating that into specific recommendations or search results.
- *iTunes or Netflix style recommendations* – where what other consumers have chosen is consolidated into suggestions and product ideas.
- *Blogs of all kinds and varieties* – where individual consumers act as unofficial guides for other consumers and share their personal likes and dislikes. Blogs are a real grassroots concept which has loads of credibility with consumers.
- *Customer reviews* – of the kind Amazon facilitates where past purchasers can rate a product and talk about what they liked or didn’t like. In a way, customer reviews allow customers to collaborate and explore topics in more depth with like-minded people who share a common interest.

There is an overall decline of faith in advertising and the companies that pay for it. Taking its place are peer reviews. People trust the collective opinion about products and services far more than advertising. Top-down style messages are losing traction while bottom-up buzz is becoming far more prominent and influential. Put differently, the new “tastemakers” are us. It’s more likely that the next generation of customers will be doing their buying research using search engines and blogs than they will be forming impressions about a brand by its advertising.

*“Millions of regular people are the new tastemakers. Some of them act as individuals, others are parts of groups organized around shared interests, and still others are simply herds of consumers automatically tracked by software. For the first time in history, we’re able to measure the consumption patterns, inclinations and tastes of an entire market of consumers in real time, and quickly adjust the market to reflect them.”*

– Chris Anderson

*“The effect of all this for consumers is to lower the ‘search costs’ of finding niche content. In economics, search costs refer to anything that gets in the way of finding what you want. Some of these costs are non-monetary, such as wasted time, hassle, wrong turns, and confusion. Other costs actually have a dollar figure, such as mistaken purchases or paying too much for something because you can’t find a cheaper alternative. Anything that makes it easier to find what you want at the price you want lowers your search costs.”*

– Chris Anderson

### 3. Doing business in a long tail economy

No matter whether you're starting from scratch or facing the emergence of the long tail economy with a multi-billion-dollar business, the fact is things are going to be different in the future.

It helps if you keep in mind a few basic ideas and concepts about the realities of the long tail economy:

1. Always think in terms of abundance, not scarcity.
2. Blockbusters will still come along, they are here to stay.
3. The niche revolution will reach every industry.

The sooner you accept these realities and start working with them rather than against them, the better positioned you will be. Regardless of whether you're ready or not, the long tail economy is just about to move to center stage. There's no point delaying the inevitable. It's time to get on the bandwagon.

#### Always think in terms of abundance, not scarcity

Most companies are familiar with Pareto's Law of the Vital Few, or as it is more widely known the 80/20 Rule – 20-percent of products account for 80-percent of revenues generated. Companies have always viewed the 80/20 Rule as an invitation to be discriminating about what is carried in the store and to try and stock just those items which will sell rather than sitting around on the shelf.

Long tail economies are still subject to the 80/20 Rule but are not dominated by it. In other words, the fact some items sell better than others is of academic interest only to a long tail business entity. In long tail markets, the carrying cost of inventory is almost zero and therefore even items which sell only occasionally and in small quantities can contribute to profitability.

The abundance mind-set of long tail economics also delivers some other interesting results:

- In the absence of the distribution bottlenecks which have traditionally distorted markets, the true shape of product demand can become apparent. In market after market as companies have moved to broaden their catalogs and digital delivery, they have found when people have more choices available to them, that bottom 80-percent which has traditionally been ignored can generate some dramatic growth in revenues.
- In a bricks-and-mortar retailer, inventory has significant carrying costs. This means any products which don't sell well will be unprofitable. For a long tail retailer, however, the very low (often zero) cost of inventory means even low volume items can be profitable. In market after market, long tail retailers are generating far more revenue from the more obscure portions of their catalogs than bricks-and-mortar stores were ever able to achieve.
- Some markets have grown much larger as niche products have become more widely available, while in other markets the amount of growth has been far more modest. As the long tail opens up more niche markets, some customers orient their tastes and preferences towards niche products, thereby increasing their consumption of those products overall. The limiting factor becomes the amount of time and attention available rather than the number of products which can be physically accessed.

- Historically, the notion of scarcity and trade-offs between limited resources has been fundamental to the study of economics. In the long tail era of business – with its infinite shelf space, low or zero costs of manufacturing and highly efficient distribution system – the usual economic restraints just won't have as much impact. Instead, different economic restraints will be the constraining factors. These will probably include the scarcity of human attention combined with the finite number of hours in the day. A consumer's disposable income will still be limited, even if there is a large number of products which appeal.

In all, long tail economies will require businesses to use a different style of thinking. Abundance will be the order of the day and will be the driving force for changing the consumer's world. Companies that want to grow and expand in this new era will need to take this into account and act accordingly.

#### Blockbusters will still come along, they are here to stay

Despite all the growth in online commerce, even the most optimistic acknowledge it will be many decades before e-commerce accounts for even 25-percent of consumer spending. Retail stores, broadcast networks and lowest-common-denominator blockbuster hit products are here to stay. Successful long tail businesses will require both hits and niches to prosper well into the foreseeable future.

This is good because:

- By offering customers the hit products they see elsewhere, this can serve as a good introduction to long tail companies. Once customers get used to buying familiar products online, they will then feel comfortable about moving into more obscure niches which match their interests more closely.
- The retail shopping experience still offers the human touch and opportunity to make a personal connection most people crave and value highly. Retailing is a sophisticated commercial activity which is now quite well defined and optimized. Strong and vibrant retailers are an important element in the growth of any nation's economy.
- Retail stores offer immediate gratification – you buy a product and walk out of the store holding it. Unless an online store is selling a digital product which can be delivered immediately, there may be a delay while the goods are shipped physically.
- The same process is also playing out in the broadcast industry. Although air may be free, bandwidth has its own set of limitations and constraints. The airwaves can only carry a fixed number of signals if they are to avoid interfering with each other. There are still only 24-hours which can be programmed, even if there is a wide range of choices available. There are also licenses to buy and transmission or carriage costs to be met. This means advertisers will be needed, each of whom will add to the mix their own set of expectations and demands. The only way a broadcaster will be able to make a profit will be to get a big enough audience so the company can make the most of that valuable broadcast slot.

Taking into account these factors, it is reasonable to say that despite all the benefits and advantages of the niche or long tail economy, much of commerce as we know it will still be based on finding the next generation of blockbusters. The value of niches will increase dramatically, but they will never completely supercede or render obsolete the market for hit products.

The niche revolution will reach every industry

If everything is available online, will that be too much choice for consumers? Conventional thinking suggests variety is good, but being faced with a choice of tens or hundreds of products in every category may generate more confusion than feelings of empowerment and liberation. Customers might become more obsessed with worrying about whether they are missing out on something better they fail to enjoy what they do purchase.

Long tail businesses will address this challenge not by arbitrarily restricting the options but by giving customers better tools with which they can order their options so this isn't so oppressive. To give an example, suppose you're shopping for jam.

Local Supermarket	Online Retailer
More than 300 different varieties available, with about 42 different brands each having around 8 different types of jam each.	More than 1,200 different kinds of jam available at Amazon.com, thanks in large part to its Marketplace partnerships with specialty food merchants.
Products sit on the shelves where they have been placed, with some shelves being easier to see because they are at eye level.	The products are stored in a database which can be searched by key words or other specifics.
The only marketing material which is available for each jam is what has been printed on the jar label.	Each jam maker can provide whatever amount of background information they like. This can be added to the product database without any restrictions.
There is an expectation on the part of the shopper the most popular brands will be placed in the best shelf space.	You can use your computer to search the database and sort by popularity, by price, by sales in a specified region, by ratings, by date, by genre. Customer reviews can be included. You can conduct head-to-head comparisons across products. You can also look for blogs to read what other people are saying about each jam. You can also head off to Google and find out more about jams in general and one particular brand in particular.
If the retailer is conducting point-of-sale promotions, you may be able to sample a jam. This is very rarely done, however.	No physical sampling is possible.
Walk out of the store with the jam you have selected and then paid for.	Wait for delivery of your jam.

If the online buying experience for something as low-tech as jam can be so markedly different from going into a physical store, the differences become even more pronounced for products which are more hi-tech. This is why the long tail economy will ultimately be as broad as the entire economy.

Good examples of companies which are already integrating long tail economies into their business models include:

- eBay – which brokers more than \$100 million in transactions each day without stocking a single item itself.
- KitchenAid – which sells high-end kitchen appliances in a range of colors. Typically a retail store will sell KitchenAid appliances in three colors but online customers can choose from more than fifty different color options – and they all sell.
- LEGO – which now lets consumers download software from its Web site, design their own models, upload their design back to the Web site and then have a kit with the necessary parts turn up about a week later. Other people can also buy these user-designed kits and if enough people do so, the kit will be released as an official LEGO product generating a small royalty payment for the kit's creators.
- Salesforce.com – which offers customers access to software through a standard Web browser for a subscription fee. Customers don't have to maintain their software but can access the latest versions of everything they need through their Web browsers.
- Google – which now sells advertising based on search word terms. Google uses a simple and cheap self-service business model to make cost-effective advertising available to small businesses which have typically never advertised anywhere else before. Google also allows other Web publishers to make money by having paid ads on their sites. Google already generates \$5 billion a year in revenues and that figure is doubling every nine months.

*“The Long Tail is nothing more than infinite choice. Abundant, cheap distribution means abundant, cheap and unlimited variety – and that means the audience tends to distribute as widely as the choice. From the mainstream media and entertainment industry perspective, this looks like a battle between traditional media and the Internet. But the problem is that once people shift their attention online, they don't just go from one media outlet to another – they simply scatter. Infinite choice equals ultimate fragmentation.”*

– Chris Anderson

*“Up until now, the focus has been on dozens of markets of millions, instead of millions of markets of dozens.”*

– Joe Kraus, CEO, JotSpot

*“Take a Pareto curve of the world's businesses, ranked by revenue. Number one is Wal-Mart. So what is the last entry? It turns out it's a person in India with a basket selling something they made. The area under the curve, which includes about a billion people, is essentially the world's GDP. So start at the bottom and move up the curve until you've got people with an Internet connection. And we ask ourselves, ‘What benefit can our model bring them to increase their revenues?’ And the answer is that if we let them do business outside their own villages, they're reaching a larger market, have got more suppliers, better price competition, and so on. Let's say for the purpose of argument that we don't focus on 90 percent of the people. That still leaves 100 million people.”*

– Eric Schmidt, CEO, Google

**4.** The nine rules of success for long tail businesses

The secret to commercial success in an economy dominated by long tail economics can be encapsulated in two imperatives:

1. Make everything you have to offer available.
2. Help people find what they want.

In practice, successful long tail businesses will treat consumers as individuals, not as part of some arbitrary demographic group. Mass customization will be at the heart of the businesses which thrive under these marketplace conditions.

There are nine rules of success for business in the upcoming era of long tail economics:

**9 Rules** **1** Create a huge inventory of choices

Consider whether it is feasible for your business to create a virtual inventory – products which are physically located in one of your partner's warehouses but which you can display and sell as part of your own product catalog. Digital inventory is the cheapest option of all. As the economy moves from shipping physical goods around into moving products in electronic format, all kinds of constraints will dissolve and new niche markets will open up.

Work in the direction of this trend and do everything you can to deepen and broaden your inventory of customer products and services. Amazon.com sells physical products which are located in one of its partner's warehouses through its Marketplace program. That means Amazon doesn't need to maintain the inventory or spend any money. That's smart thinking. Explore the various ways you could achieve the same result.

**9 Rules** **2** Let your customers do the work

A large number of companies have grown their operations by providing the tools and letting their customers do the work. A good example of this "peer-production" business model is eBay where the customers list their goods, manage their own auctions, ship the items sold and then rate doing business with each other. A similar effect happens with Netflix where customers provide hundreds of thousands of movie reviews. Skype has signed up 60 million users who happily do for free what most companies need paid employees to get done. These are companies which have gone beyond outsourcing and end up with what is effectively "crowdsourcing".

One of the more startling advantages of a crowdsourcing production methodology is customers end up doing a better job than the paid professionals would do in the first place. This is evident at Netflix where many of the customer submitted movie reviews are well-informed, articulate and are subsequently trusted by other users. Collectively, a large pool of customers will have virtually unlimited time and energy. This is important because in a long tail economy, capacity needs to be extended a very long way.

Do everything feasible to make your business self-service. Make it possible for the work to get done by the people who care most about what gets produced. They know their own needs far better than you ever will, so by opening up to self-service, you generate a business more finely attuned to your customers.

**9 Rules** **3** Develop lots of distribution methods

Some customers will want to go to physical stores, but others will prefer shopping online. A few of your customers will prefer to research online, then buy in a bricks-and-mortar store. Others will prefer to browse in stores and then buy online. If you offer just one method of distribution, you risk alienating a large portion of your potential customer base.

Long tail markets need multiple distribution channels because you can't make any assumptions about how or when people will want to consider doing business with you. To align with this trend, make it easy for people to get your product or service any way they choose. Be an agnostic when it comes to distribution and use every distribution method you can think of.

**9 Rules** **4** Avoid one-product-fits-all thinking

Until recently, the only way customer could buy music was to go into a store and purchase a CD. Today, some customers still buy music that way but many more download their music because they can buy just an individual track rather than an entire album. The music can also be downloaded as a remix, as a free thirty-second sample, as a ringtone, as someone else's remix, as a music video and so forth. All of these small markets create a big market which exceeds the size of the old market.

Increasingly, content in digital format is getting "microchunked" – broken down into component parts which can then be combined with other material and then delivered in whatever format consumers want. Each of these recombinations then taps into a different distribution network and thereby reaches a different segment of the market. An example of this is newspapers which get microchunked into individual articles which are then linked to specialist sites around a tightly focused topic.

To make the most out of this kind of long tail brand segmentation, make it easy for your product or service to be broken down into digital microchunks or building blocks.

**9 Rules** **5** Never think one-price-fits-all

Long tail markets require variable pricing. The fact different people are willing to pay different prices for the same goods is a well known fact. The reasons for their willingness to pay different prices varies widely, but the underlying fact remains if you have just one price for your offerings, you'll end up leaving money on the table.

Variable pricing goes hand in hand with the idea of microchunking. If you sell a portion of your product as an integral part of something else, then you would expect a different pricing model to apply. If your marginal costs of manufacturing and distribution are virtually nil – as happens with material which is in digital format – then the obvious model to use is variable pricing. That way consumers pay according to the value they perceive. There are no economic distortions introduced by the usual production constraints, bottlenecks and so forth which exist in the physical world but which are absent in the digital world.

Fluid pricing models will have the impact of drawing a greater number of people down the long tail. Lower prices can be a powerful technique for maximizing the value of a product and increasing the size of its market. You could say there is a market for anything and everything if the price is right.



**9 Rules** **6** Share all the information there is to have

Information differentiates products. It separates look-alikes from the genuine articles. The more information you can provide a prospective customer, the better with one simple proviso – the information has to be presented in such a way it will help create order rather than generating more confusion.

The long tail economy won't just value product information alone, however. Information about the buying patterns of a large group of people can be used to generate recommendations which become a powerful marketing tool. Technical information may be able to answer questions which would otherwise have halted a purchase. Transparency is also vital if recommendations and suggestions are to be taken at face value.

**9 Rules** **7** Be inclusive – offer it all

Conventional economic thinking was based on zero-sum markets. Everything was always treated as an either/or choice as consumers chose only one product in each market segment for their purchases. That's natural thinking, but in a long tail economy, there is always a market somewhere for everything. Therefore, the right strategy is to try and offer it all, even if the sales per line are only small.

This is a profoundly different way of thinking. The practice of product development has always been to develop a product which was more likely to sell greater volumes than all potential alternatives. In a long tail style economy, there is no cost in having an almost infinite number of versions available. If any of these versions generate a sale which you would have missed out on by offering a mass market generic version of your product, you come out ahead.

The more abundant and cheaper your storage capacity becomes and the less distribution costs are, the less discriminatory you can choose to be. It's far easier to offer every version conceivable than it is to arbitrarily try and dictate which should sell better. Let the market decide for itself.

**9 Rules** **8** Allow the market to do your job for you

Traditionally, businesses have had to try and forecast sales so they could have inventory available, set up channels of distribution, arrange service support and more. In long tail markets, you simply put everything out there and let the market sort itself out. Over a period of time, the combined wisdom of the crowd will sort out which version offers the best added value and that version will sell more than any other choices.

That's not to say long tail economies don't have tools available to help customers make good choices. They do. Some of the most commonly used tools will include:

- Popularity rankings based on current customer experiences.
- Word-of-mouth or word-of-mouse recommendations.
- Ratings which reflect the market's collective opinion.

The fact you won't have to guess at what will sell and in what quantities has some far-reaching impact. In essence, this will allow businesses to be more efficient. Companies will be able to measure what works in the marketplace and build on that rather than go down the predictive path. This will be a fundamentally different way to do business.

**9 Rules** **9** Understand the pulling power of "free"

One of the most commonly used Internet business strategies is to attract lots of users by offering a basic free service and then make money by convincing some users to upgrade to a fee-based premium service. This works well in digital markets because the cost of making and delivering another copy of something is virtually zero. If a company can convert just a very small fraction of its product users into paying customers, a substantial revenue stream can be created.

Some other variations on this theme have also proven to be highly successful:

- Video-game makers routinely distribute free demo versions of new games which have a few free levels. If people like those free levels, they then have to pay to unlock the other levels.
- Movie companies are now starting to release the first nine or ten minutes of movies as free samples. People watch those, get interested in the plot of the movie and then have to pay to go and watch the entire movie at the theater to see how everything works out.
- Television networks now make episodes of popular shows available for downloading over the Internet. Some of these shows have advertising at the beginning and at the end but others have no ads whatsoever. Instead, the producers generate revenue by placing products right in the shows themselves, thus avoiding the situation where people fast forward through the ads.

*"For around \$30,000, you can now buy a machine called a Solidscape T66 3D printer for your home. A 3D printer is a domestic factory, capable of manufacturing almost anything in lot sizes of one. 3-D printers use a laser to turn a bath of liquid polymer or powder into hard plastic in any shape you desire. Feed it a 3-D object file, such as the output of a CAD program or even the screen captured polygon file of a character from a video game, and the laser will go to work tracing it out. Layer by layer, a perfect plastic reproduction of the object emerges out of the bath. It's like magic. Someday, they may be as common as inkjets and not much more expensive. Just think what that might enable. As 3D printing technology extends beyond brittle plastic to a range of materials, from metals to synthetic fibers, we may be able to self-manufacture spare parts, toys, perhaps even entire machines that we've downloaded from some virtual retailer. Today you can print your own photographs at home; tomorrow you may print the frame, too. Like everything else, tomorrow's Long Tail of Things will be aggregated, efficiently stored as bits, and then delivered to your home via optical fiber. Only then will it be materialized, coming full circle to atoms again at the point of consumption. It sounds like science fiction, but then again so did having an entire music library in your pocket just a decade ago. In the worlds of entertainment and information, we've already lost the capacity constraints of shelf space and channels, along with their one-size-fits-all constraints. Soon we may lose the capacity constraints of mass production, too. The explosion of variety we've seen in our culture thanks to digital efficiencies will extend to every other part of our lives. The question tomorrow will not be whether more choice is better, but what do we really want? On the infinite aisle, everything is possible."*

– Chris Anderson