

# The Wisdom Report

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## Finding Abundance in the Long Tail

### The 80/20 Rule

You are already familiar with the 80/20 rule. In the late 1800s an Italian economist discovered that 80% of the wealth in his country was owned by 20% of the people. More recently we find that the 80/20 rule applies in other areas of our lives. Professional service firms find that eighty percent of the revenue comes from twenty percent of the clients. Merchants find that eighty percent of sales comes from twenty percent of the products. Winners at the very top of any field tend to win by a large margin.

### Another View of the 80/20 Rule

*The Long Tail* by Chris Anderson offers another way to look at the 80/20 rule. Our business example: A bookstore. The graph below shows book sales ranked by sales volume. Best-sellers are on the left side of the chart (in green) while slower sellers fill in the curve toward the right. Since shelf space is limited and expensive, the store only carries the most popular books along the left side of the chart. Smart application of the 80/20 rule, right? Maybe.

### The Long Tail: Everything Else

High-volume books sell much more than other books. High-volume books (the short head) are the 20 percent that generate 80 percent of the revenue. The Long Tail is made up of everything else.

When a book store chooses to carry 20% of the available titles, how do they decide which

20% to carry? How do they predict the hits in advance?

Answer: They can't. Sometimes a sure hit fizzles into a dud, while a "sleeper" rockets to the best-seller list. A similar problem is faced by movie distributors, retail stores, and other businesses. How do you profit from hits that you cannot predict?

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Apple leveraged iTunes to harvest the Long Tail of music distribution. Video is next.

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### The Long Tail in 1897

Sears, Roebuck & Co. is one of the oldest Long Tail companies in the USA. If you wanted to buy a product in late 1800's America, you would visit the general store. Most Americans lived on farms at that time, so visiting the store meant riding into town. Product selection was limited to the items on the store shelf. Shopping for a better price meant traveling to the next town – a tough journey in the days before automobiles.

Sears entered the scene in 1897. Launching in the middle of the railroad boom gave Sears access to a cheap delivery system for both suppliers and customers. Efficient warehouses located at the country's busiest railroad hub, Chicago, maximized their distribution leverage. The result: The cozy general store system was disrupted by the Sears catalog, 786-pages filled with more products and better prices.

Note that the Sears catalog did not put the general store completely out of business. Impulse buyers still shopped at the general store. But Sears certainly shook things up by making Long Tail products available for everybody.

### The Long Tail in 1994

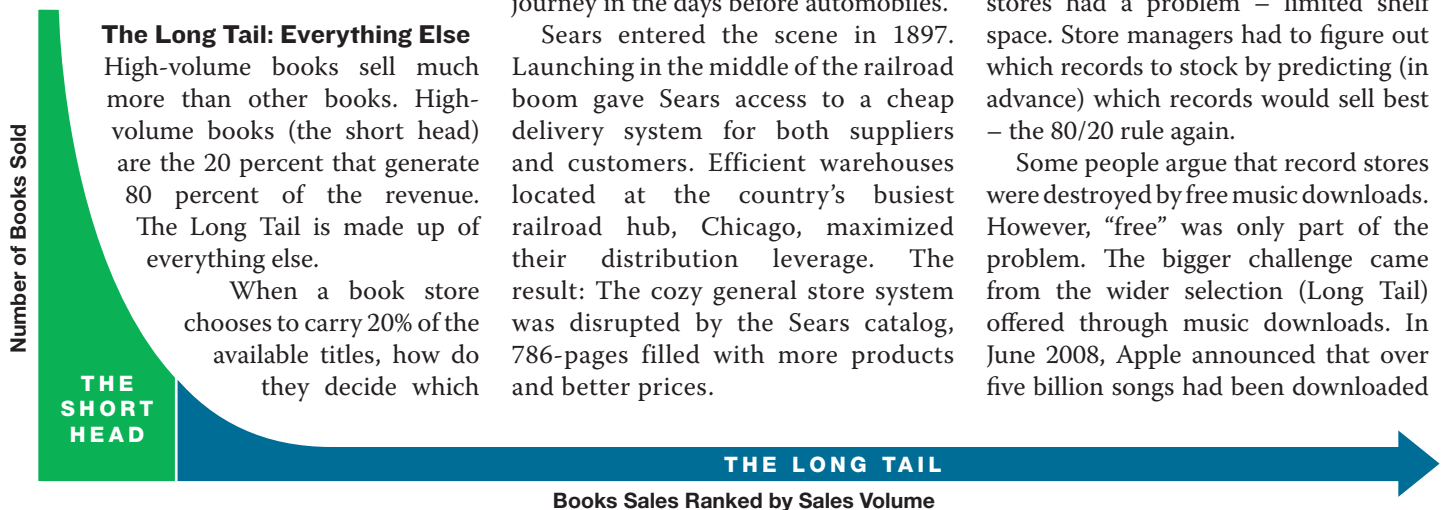
In 1994 a math geek named Jeff Bezos was reviewing Internet investment opportunities. Bezos observed that book sellers were expanding their physical stores, but none were expanding on the web. He smelled an opportunity. Bezos believed that a new distribution system (the web) could make a wider selection (the Long Tail) available to the world. Amazon.com was born.

Sears launched in the middle of the railroad boom, and Bezos launched Amazon.com in the middle of the first Internet boom. Sears benefited from inexpensive distribution via railroads, while Amazon distributes its catalog virtually free via the web. Great business ideas often repeat themselves.

### The Long Tail Today

Do you remember record stores? Record stores had a problem – limited shelf space. Store managers had to figure out which records to stock by predicting (in advance) which records would sell best – the 80/20 rule again.

Some people argue that record stores were destroyed by free music downloads. However, "free" was only part of the problem. The bigger challenge came from the wider selection (Long Tail) offered through music downloads. In June 2008, Apple announced that over five billion songs had been downloaded



# Long Tail Business Examples

	1. Make Everything Available	2. Help Customers Find What They Want
<b>Sears in 1897</b>	Railroads enabled Sears to distribute catalogs and merchandise more rapidly than ever before.	The Sears catalog of 1897 listed everything in 786 pages.
<b>Amazon.com in 1994</b>	Amazon distributes its “catalog” at very low cost thanks to the web.	Amazon’s recommendation engine looks at past purchases when suggesting future purchases.
<b>Apple iTunes in 2009</b>	Apple’s iTunes makes the most obscure music available to anyone with a computer and an Internet connection.	The 30-second listen-before-you buy feature shows customers that they will get what they are looking for.

through iTunes at 99 cents each. Apple’s distribution costs are virtually zero thanks to iTunes.

Apple found abundant opportunities in the Long Tail of music distribution. Video entertainment is next.

## What About the Crud?

Some argue that there is a reason why some products are in the Long Tail instead of the short head: If you consider the entire spectrum of any product type, a large percentage of it is crud. The music industry is one example. True, the “better” music gets recorded by a large music studio or played on radio stations. But the Long Tail is full of music that never made it that far – from the amateur taking his first lesson to the garage band with great musical skills and bad marketing.

Of course, one person’s crud is another person’s masterpiece. Musical tastes vary widely. The Long Tail works in the digital music business because it makes tiny niches of music available to people who want them.

## The Long Tail Future

Given the success of Long Tail companies (like Sears, Amazon, and Apple) one might wonder if there are any Long Tail opportunities left in our economy. The answer is yes! Anderson argues that a Long Tail company needs to do two things to succeed:

1. Make a wide selection available, from the short head and the Long Tail.
2. Help customers find what they want.

## Everything, Easy to Find

If you make everything available, customers could become annoyed if they have to sift through it. So we have to make it easy for them to find exactly what they want.

Sears made everything available through railroads, and they solved the sifting problem with the Sears catalog. The catalog served as a convenient way for customers to find the products they wanted.

Amazon’s recommendation software is wonderful – unless you’re a customer trying to save money! The engine examines a customer’s past purchases and uses that information to suggest future purchases. Human clerks have done the same thing for centuries. But Amazon’s software does it faster with zero vacation days.

Apple makes everything available and easily searchable through iTunes.

## Conclusion

History shows that Long Tail opportunities tend to coincide with the introduction of disruptive technologies. Railroads and the Internet are two examples. Sears could not have existed in catalog form before railroads. Amazon could not have offered the long tail of book selection without the Internet. In both cases, the advent of a faster & cheaper distribution system was a catalyst for a powerful new business model.

Are there any Long Tail opportunities left in today’s marketplace? Yes. And the next Long Tail enterprise might be launched by you.

## Suggested Reading

*The Long Tail*, by Chris Anderson. The drastic reduction in the cost of distribution for digital information has far-reaching effects upon our economy. As a result, some businesses will thrive while others will die.

## About the Author

Raymond T. Hightower is president of WisdomGroup, creators of outstanding web-based software. WisdomGroup leads the open source user group ChicagoRuby.org, and we created the WindyCityRails conference. For more information, visit [WisdomGroup.com](http://WisdomGroup.com).