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# THE LONG TAIL

Why the Future of Business Is Selling Less of More


CHRIS ANDERSON

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# A SHORT HISTORY OF THE LONG TAIL

## FROM THE WISH BOOK TO THE VIRTUAL SHOPPING CART

**While the Long** Tail currently manifests itself largely as an Internet phenomenon, its origins predate Amazon and eBay, and even the Web. Instead, it is the culmination of a string of business innovations that date back more than a century—advancements in the ways we make, find, distribute, and sell goods. Think about all the non-Internet elements that enable, for instance, an Amazon purchase: FedEx, standard ISBN numbers, credit cards, relational databases, even bar codes.

It took decades for these innovations to emerge and evolve. What the Internet has done is allow businesses to weave together those types of improvements in a way that amplifies their power and extends their reach. In other words, the Web simply unified the elements of a supply-chain revolution that had been brewing for decades.

Indeed, the true roots of the Long Tail and unlimited shelf space go back to the late nineteenth century and the first giant centralized warehouses—cavernous buildings erected on industrial lots near the junctions of railway lines in the American Midwest, starting in Chicago. Under their immense steel roofs, the era of massive choice and availability arose on towers of wooden pallets, built with the bulk purchasing afforded by then-new mass production. Railway cars delivered this new variety on a network of iron tracks that were transforming the country's economy and culture.

The man who first showed the American consumer just what all of this could mean was a railway agent in North Redwood, Minnesota. His name was Richard Sears. In 1886, a box of watches was mistakenly sent from a Chicago jeweler to a local dealer in North Redwood who didn't want them. Buying them up for himself, Sears sold the watches for a nice profit to other railway agents up and down the line. He then bought more and started a watch distribution company.

By 1887, he'd moved the business to Chicago and placed an advertisement in the *Chicago Daily News* looking for someone who could repair watches (there was no sense, he thought, in scrapping the defective watches that had been returned). Alvah C. Roebuck answered the ad. Six years later, the two partnered up and founded Sears, Roebuck and Co., which used catalogs to sell watches by mail to the rural farmers who were being gouged by local general stores and an army of middlemen.

The promise of Sears, Roebuck and Co. was simple, according to its corporate history: "Thanks to volume buying, to the railroads and post office, and later to rural free delivery and parcel post, it offered a happy alternative to the high-priced rural stores."

What started as watches soon expanded to everything a rural home and business might need. Sears and Roebuck distributed catalogs to farmers, with folksy copy written by Sears himself, and fulfilled their orders from a succession of larger and larger buildings in Chicago. Eventually, the pair constructed a forty-acre, $5 million mail-order plant and office building on Chicago's West Side. When it opened in 1906, with more than 3 million square feet of floor space, the mail-order plant was the largest business building in the world.

What Sears and Roebuck's warehouses and efficient processing operations enabled was nothing less than revolutionary. Imagine being a farmer living deep on the vast Kansas prairie more than a hundred years ago. You are several hours' ride from the nearest general store, and neither the store's products nor the price of gasoline is cheap. Then, one day, the weekly mail delivery brings you the 1897 Sears

"Wish Book"—786 pages of everything under the sun at prices that can hardly be believed.

The 1897 Wish Book was—and still is—astonishing. Even today, in the era of Amazon, it seems impossible that so much variety can exist. Crammed into something the size of a phone book are 200,000 items and variations, all described with tiny type and some 6,000 lithographic illustrations.

Here's a sample of the first ten pages: sixty-seven kinds of tea; thirty-eight kinds of coffee, and twenty-nine kinds of cocoa. Next come several hundred different spices and extracts, and an equal number of canned and dried fruits, followed by a small supermarket's offerings of other foods. By the eleventh page, it is time for more than sixty kinds of soap, and then on for another 770 pages of everything from drugs to guns (including a revolver for sixty-eight cents!) to clothes to buggies to two-dollar violins.

This was mind-blowing stuff for a rural farm family. With the heavy *thunk* of a single mail drop, the choice of available products increased a thousandfold from the typical inventory at the general store. What's more, the catalog also represented a drop of often 50 percent or more in price, even after shipping.

Sears was spreading the word among prospective customers with one of the earliest examples of "viral marketing." In 1905, the company wrote to its best customers in Iowa, asking each to distribute twenty-four catalogs among friends and neighbors. These customers sent Sears the names of people who received the catalogs. When those people placed orders, the original customers, in turn, received premiums for their work: a stove, a bicycle, or a sewing machine.

Likewise, the supply-chain techniques Sears used to achieve its miracle of abundance are not so unfamiliar today: a combination of goods in stock at its warehouses and a "virtual warehouse" network of suppliers who would ship the goods directly from their own factories. Sears even served as an agent for build-on-demand buggy makers.

Within the warehouses themselves, too, the innovations were astounding. Concerned about shipping inefficiencies, Sears managers set up a system in which each order, as it arrived, was allotted a specific time to be shipped. The item(s) had to be in the appropriate bin in the merchandise-assembly room at the assigned time. To meet its deadline the order traveled from bulk storage to the packing room by an intricate system of belts and chutes.

This time-scheduling system brought efficiency to mail order, enabling the Chicago plant to handle ten times as much business. In a short time, the system became known as the "seventh wonder" of the business world. Henry Ford is said to have visited the Chicago plant to study its efficient assembly-line technique.

Ironically, it was Ford's own assembly lines that eventually forced Sears to take the next step in the march to plenty, *the superstore*. With affordable cars and the advent of better modern roads, Sears's rural customers were no longer limited to shopping by catalog. Meanwhile, the great urbanization of America was beginning, and those same customers were abandoning the farm for the factory. In 1900, the rural population still outnumbered the urban population. By 1920, those figures had reversed.

City shoppers preferred stores to catalogs. In 1925, Sears opened one store in its Chicago mail-order plant. The experiment was an immediate success. Before the year was over, Sears had opened seven more retail stores—four in mail-order plants. By the end of 1927, it had twenty-seven stores. Huge selection and low prices appealed to everyone, and the supply-chain efficiencies Sears had developed for mail-order allowed the company to offer unprecedented selection in its retail stores, too (helping to lay the groundwork for what would eventually become the Wal-Mart model).

America was hooked on choice. The superstores offered huge selection at low prices. They preached the religion of economies of scale, a concept (bigger stores are more efficient) that required no more than a price-tag comparison between traditional merchants and superstores to understand. How much farther could it go?

## FEEDING THE TAIL

Food was the next frontier. The first supermarket was a King Kullen store that opened in Queens, New York, on August 4, 1930, in the depths of the Great Depression. Comparable to today's no-frills warehouse outlets, this store sold more than one thousand products, serving as the catalyst for a new age in food retailing. Like Sears, King Kullen offered greater variety, lower prices, and one-stop shopping, along with the opportunity for customers to select products directly from shelves.

Along with self-service and abundance came the need to transport and store what had become weekly bulk grocery shopping trips, as opposed to the daily meal shopping of the previous grocer era. Key to the early success of the supermarket was the shopping cart (first introduced in 1937), the automobile, free parking lots, and mechanical refrigerators in the home and store.

In its official history of the industry, the Food Marketing Institute describes the effect:

> The supermarket helped create the Middle Class. Its low prices freed up substantial funds for families to spend on cars, homes, education and other needs and amenities of life. As supermarkets proliferated in the 1950s and 1960s, they played a pivotal role in creating the American middle class. On the supermarket's silver anniversary, President Kennedy said that the supermarket's low-cost mass marketing techniques ". . . have enabled a higher standard of living and have contributed importantly to our economic growth."
>
> During the Cold War, from 1958 to 1988, some 50,000 Soviet citizens traveled to the U.S., most touring an American supermarket on their trip. The supermarket showcased how a free-market economy could deliver abundant, affordable food and became a metaphor for what capitalism could do and Communism could not. In his autobiography, Boris Yeltsin gave this account of his 1989 visit to a supermarket in Houston: "When I saw those shelves crammed with hundreds, thousands of cans, cartons, and goods of every possible sort, for the first time I felt quite frankly sick with despair for the Soviet people. That such a potentially super-rich country as ours has been brought to a state of such poverty! It is terrible to think of it."

The corner grocery store of the 1920s had carried about 700 items, most sold in bulk, and consumers had to shop elsewhere for meat, produce, baked goods, dairy products, and other items. The supermarket collected all these products under one roof. What's more, the number of unique products it carried climbed: to 6,000 by 1960, 14,000 by 1980, and more than 30,000 today.

## THE TOUCHTONE CONSUMER

The next great expansion in variety took place in the home again, with the introduction of toll-free 800 numbers. They started with modest expectations. In 1967, AT&T launched a new product called "interstate inward WATS (Wide Area Telephone Service)," also known as "Automated Collect Calling," which was mostly intended to combat an anticipated shortage of telephone company operators. Operators were becoming overwhelmed by the number of collect calls being accepted by businesses. AT&T thought that the new service might help with that labor shortage but would otherwise have limited appeal. The company never dreamed that by 1992, only twenty-five short years later, 40 percent of the calls on AT&T's long-distance network would be toll-free calls.

What toll-free calling enabled was the return of catalog shopping. The modern automotive age had shifted the population out of the city and into the suburbs, where selection was limited to local shopping centers. An increasingly affluent and materialistic suburban generation was ready to spend again, and by the mid-1970s, they had credit cards to help them act on those desires. The 800 number was the necessary catalyst for a home-shopping boom.

In contrast to the Sears era of massive centralized warehouses containing everything, this later wave of catalogs was more about targeted niches. Color printing technology made it possible for niche retailers to print hundreds of thousands or even millions of catalogs that carpet bombed targeted mailing lists with magazine-quality showcases of their wares. Response rates as low as 1 percent could still be profitable.

Niche products had once again found a way to reach mainstream audiences. Sporting goods, branded apparel, interior design, lingerie, outdoor furniture, hobbies—each month brought a new parade of deep inventory in specialized retail. All it took was a phone call and a credit card, and consumers would have their products in hand in a week or two. But as impressive as this postal cornucopia might have seemed, what the personal computer could offer would soon dwarf it.

## THE ULTIMATE CATALOG

The rise of e-commerce on the Web in the early 1990s started by simply building on the catalog model with even more convenient ordering, larger selections, and broader reach at lower cost. The Internet provided a way of offering a catalog to everyone—with no printing and no mailing required. It would clearly work everywhere catalogs worked, and then some.

Of course, some categories were more promising than others. But which?

This was the question Jeff Bezos asked himself as he sat at his desk at the hedge fund D. E. Shaw in New York. It was 1994 and the Internet was starting to take off, growing by 2,300 percent a year from its small existing base. A budding "quant" (math geek), Bezos was asked by his boss to find Internet business opportunities. As he explained, more than ten years later, at an event in Silicon Valley:

> I went to the Direct Marketing Association and got the list of all the things that were sold remotely. Apparel was the number one remote sales category. Gourmet food was number two. Way down at the bottom of the list were books, and the books category was only on there because of things like the Book-of-the-Month Club, because there really are no paper catalogs to speak of that sell books.

The early 1990s were a boom time for the U.S. book industry. Crown Books had already transformed the business with a chain of discount stores, spurring record sales and triggering a wave of similar discounting. Then Barnes & Noble and Borders took it one step further by introducing massive superstores. Sometimes built in converted movie theaters or bowling alleys, these megastores carried as many as

100,000 titles, an inventory five times that of the average local bookstore. It represented an enormous increase in availability and choice, launching an age of abundance for the book buyer.

Books were becoming cheaper and more plentiful—what more could anyone want?

Again, Bezos asked himself that very question:

> I was sorting through these things. If you used the Web in 1994, with the primitive browsers and the technology that was available at the time, it was a pain. The browser was always crashing and things didn't work right and your bandwidth was tiny, even if you had the best modem available at the time.
>
> I concluded that given the technology at the time if you could do something any other way, that other way would be preferable to doing it on the Web. You didn't want to do apparel on the Web, even though it was the best category, because apparel you could do very effectively through catalogs and through stores. This was my criteria: picking a category where you could substantially improve the customer experience along a dimension that could only be done on the Web.
>
> It turns out that selection is a very important customer experience driver in the book category. It also turns out that you can't have a big book catalog on paper; it's totally impractical. There are more than 100,000 new books published every year, and even a superstore can't carry them all. The biggest superstores have 175,000 titles and there are only about three that big. So that became the idea: let Amazon.com be the first place where you can easily find and buy a million different books.

What this quant had zeroed in on was an opportunity in what appeared to be a very mature book industry. Although there were lots of publishers, most distribution was handled by just two wholesalers, which had warehouses strategically placed around the country to serve any need.

That suggested a great opportunity for a virtual retailer.

Although 175,000 titles sounds like a lot, Bezos knew the inventory of even the largest superstores was just a tiny fraction of the books available. And being able not only to search for book titles but also to read reviews would clearly make it easier for customers to find what they really wanted.

At the time, there were at least 1.5 million English-language books in print—even the superstores carried just 10 percent of them. Today, the online database Books in Print lists upward of 6.1 million titles. Bezos also knew that more and more publisher catalogs were popping up online, offering academic books, trade books, self-published books, and more. There was no reason why Amazon couldn't offer all of them.

What the Internet presented was a way to eliminate most of the physical barriers to unlimited selection. The bricks-and-mortar superstores had scale, but they still had to deal with the economics of shelves, walls, staff, locations, working hours, and weather. Because they were bigger and more efficient than the independent booksellers, superstores could offer more selection. However, even their business model hit the wall long before the supply of available titles did.

Today online shopping has passed catalog shopping and now accounts for about 5 percent of American retail spending. It's still growing at a whopping 25 percent a year, and is well on track to fulfill Bezos's original prediction that online retail would eventually reach around 15 percent of total retail, which would give it more than a tenth of the $12 trillion American economy.

One of the largest categories is the online sites of the bricks-and-mortar giants. Bn.com complements Barnes & Noble's brand with a Web site that offers selection on a par with Amazon. Discount cards work equally in both channels, and you can get same-day delivery in Manhattan where B&N has several superstores. If a store doesn't have a book in stock, the clerks are still able to satisfy a customer request by ordering it for them online. Likewise for the online side of Wal-Mart, Best Buy, and innumerable other retailers: The unlimited shelf space of the Web retail allows them to offer their customers more variety and convenience, cementing brand loyalty with existing customers and extending it to new ones who may or may not be near a physical store.

## LONG TAILS EVERYWHERE

From purely virtual retailers such as eBay to the online side of traditional retailing, the virtues of unlimited shelf space, abundant information, and smart ways to find what you want—Bezos's original vision—have proven every bit as compelling as he thought. And as a result, there are now Long Tail markets practically everywhere you look.

Just as Google is finding ways to tap the Long Tail of advertising, Microsoft is extending the Tail of video games into small and cheap games that you can download on its Xbox Live network. Open-source software projects such as Linux and Firefox are the Long Tail of programming talent, while offshoring taps the Long Tail of labor. Meanwhile, the Internet has enabled the longest, er, tail of pornography for every possible taste and kink.

More esoteric examples include the proliferation of microbrews as the "Long Tail of beer" (indeed, Anheuser-Busch has created a division called "Long Tail Libations" to sell niche drinks), the growth of customized T-shirts, shoes, and other clothing as the "Long Tail of fashion," and the growth of online universities as the "Long Tail of education."

Finally, to give an idea of how broadly the theory has been applied, consider this analysis of the "Long Tail of national security" by John Robb, a military analyst who runs the Global Guerrillas Web site:

> Traditionally, warfare (the ability to change society through violence) has been limited to nation-states, except in rare cases. States had a monopoly on violence. The result was a limited, truncated distribution of violence. That monopoly is on the skids due to three trends:
>
> - A democratization of the tools of warfare. Niche producers (for example: gangs) are made possible by the dislocation of globalization. All it takes to participate is a few men, some boxcutters, and a plane (as an example of simple tools combined with leverage from ubiquitous economic infrastructure).
> - An amplification of the damage caused by niche producers of warfare. The magic of global guerrilla systems disruption which turns inexpensive attacks into major economic and social events.

- The acceleration of word of mouth. New groups can more easily find/train recruits, convey their message to a wide audience, and find/coordinate their activities with other groups (allies).

The result: a Long Tail has developed. New niche producers of violence have flourished. Demand for the results these niche suppliers can produce has also radically increased. Big concepts (such as a struggle between Islam and the U.S.), not championed by states, have supercharged niche suppliers like al Qaeda and its clones.