The creation of an effective iMade business model requires a close examination of recent evolutions in business model thinking. Today, business activities occur in a very different context compared to a decade ago. The rise of the Internet and related technologies caused a shift in business strategy and consumer behavior, which resulted in the feasibility of ‘long tail’ business models. Within the framework of this second iMade workshop, we focus on the long tail ‘theory’ and its effects on business models.

Almost ten years ago, Chris Anderson (2004; 2006) pointed at the potential that especially ICT developments offer in terms of serving smaller audiences in a profitable manner. Whereas traditional retailing models implied a certain scale before operations can be organized profitably (leading to a focus on ‘blockbusters’ that address larger markets segments or mass markets), the rise of the Internet enabled a new retailing strategy of selling a wider range of products than ever before. In *The Long Tail: Why the Future of Business Is Selling Less of More* (2006), Anderson demonstrates how the capacity to reach niche markets has important implications. Such a reach becomes enabled by disclosing information on an ever larger scale resulting in an ‘infinite storage space’. This phenomenon partly explains the growth of firms such as Amazon, Netflix and other specialized firms that focus on niche markets in the Internet age. In short, the long tail perspective encompasses the following reasoning: The true size of demand was to some extent unknown as suppliers refrained from serving smaller audiences. However, when consumers have an infinite choice and distribution can be organized cost effectively (which is especially the case for informational products), the true demand size becomes clear and reveals much less focus on ‘mainstream’ products then previously assumed.

The costs to enter niche markets are decreasing due to a combination of factors such as digital distribution, improved search techniques, and a broader availability of the Internet. A shift in the demand curve can actually occur if customers are also able to find their preferred niche, which happens through ICT tools such as search engines, online recommendations, reviews, filters. The demand curve will become flatter from the moment a very wide range of products exists, and filters work properly. Remark that bestselling products will still be present but these products will become relatively less important. Moreover, the availability of more alternatives might further result in a decreasing popularity of blockbusters (a phenomenon which one observes now clearly in the TV market where a huge number of series finds an ever larger audience and where some of these series are even distributed ‘off screen’, i.e. without appearing on the large TV stations). All niche products
together can make up a market share that rivals or exceeds the bestsellers. At this stage, the natural shape of the demand curve becomes clear, showing a long tail (see figure 1).

Anderson describes three forces behind the long tail: (1) democratization (or reduction) of production costs: software and production tools are more frequently available for free; (2) democratization (or reduction) of distributions costs – for physical products, the search costs decrease dramatically; for ‘informational’ products (music, movies, text/books, pictures, software,..) also the production and distribution cost equation is redefined dramatically; (3) bringing together demand and supply more effectively through filters (e.g. Google, blogs, websites with recommendations - e.g. Amazon, eBay, iTunes, TripAdvisor).

Promptly after the publication of The Long Tail, BusinessWeek pronounced Chris Anderson’s concept as the greatest idea of the year. The book was widely read and the long tail entered the management field. As a consequence of its popularity, the long tail perspective increasingly influences the development and implementation of business models. While the long tail was welcomed and embraced by a number of (new established) firms, it seems that not all its promises unfold. In 2008, Harvard Business Review published a critical article questioning whether you should invest in the long tail (in this respect it is interesting to compare the sales and margin of iTunes, Apple’s distribution platform for music, apps, etc.) on which a large number of ‘long tail’ products are being sold with the sales and profits stemming from the iPhone (‘blockbuster’). Indeed, one cannot deny that online commerce has broadened customers’ access to all kinds of products. However, the findings of Elberse (2008) suggest that it would be unwise for firms to backtrack traditional practice and focus on the demand for obscure products. Capturing data on media content and information goods, Elberse shows how difficult it is to profit from the tail. When we have a look at practice, it seems that success stories which also imply scale are exceptions rather than the rule. On the other hand, there is ‘anecdotic’ evidence of highly successful niche players, such as Materialise (Belgium), Techshop (US), Aravind (India).

Although scholars already contributed to quantifying long tail effects and exploring their implications, there is a need for more fundamental research and critical consideration of long tail business models. The focus should also go beyond the media and entertainment sector. Today, there are many question marks left, including contingencies which affect the sustainability and profitability of a long tail business model. Which part(s) of the value chain impose most bottlenecks (in terms of achieving scale, in a sustainable manner – which for an economist implies at least some profit)? Are these business models limited to ‘informational’ products/services (enabled by the ‘economic principles of
information’ (almost zero reproduction costs etc.)? The answer seems to be at least partly ‘no’ (e.g. personalized medicine) which reinforces the relevance of further analyzing the first question. Finally, it is clear that complementary concepts pertaining to other functional domains (most notably marketing and sales (including distribution) and operations management) will be highly informative on which business model innovations will eventually survive and prosper.

References


