

15.567 Reading Guide

Session 11: The Long Tail

As the internet and related technologies lower the costs of search, they make it easier for consumers to locate obscure products and services that may be uniquely well-suited to their tastes. At the same time, virtual shelf-space and lower production costs can make it easier to keep enormous product lists or even make customized products to order. What are the strengths and weaknesses of this story? What are the strategic and economic implications of your analysis?

Readings

Anderson, Chris. "The Long Tail," *Wired*, <http://www.wired.com/wired/archive/12.10/tail_pr.html>

Brynjolfsson, Erik, Yu (Jeffrey) Hu, and Michael D Smith. 2003. "Consumer Surplus in the Digital Economy: Estimating the Value of Increased Product Variety at Online Booksellers," *Management Science* 49 (11) 1580-1596.

Optional

Garrity, Brian. 2006. "DMG Bets on 'Long Tail'," *Billboard* 118 (7) 12, 18 Feb 2006.

Brynjolfsson, E., Hu, Y. and Rahman, M. "Battle of the Retail Channels: How Product Selection and Geography Drive Cross-channel Competition", *Management Science*, 2009.

Varian, Hal R. 2005. "Reading Between the Lines of Used Book Sales," *New York Times* 28 Jul 2005.

Study Questions

Please think about the following issues and questions as you do the readings.

1. What is the definition, theory and evidence for "The Long Tail"? What are the underlying drivers on both the supply side and the demand side?
2. What examples can you point to of this phenomenon? What counter examples are there? Where does the Long Tail seem most important? Has it been over-hyped?
3. What changes, if any, do you expect in industries with large numbers of SKUs (stock keeping units)? What strategy would you recommend in light of your analysis? What opportunities or threats do you see?
4. Should pricing be different for products in the tail of the distribution vs. the head?
5. What about the opposite of the Long Tail, the "Superstar" or "Blockbuster" effect? Where would you expect each type of effect to dominate? Could both phenomena happen at the same time?

Required Assignment "One Pager" for Long Tail Class

Please submit a one page memo addressed to Howard Anderson, Managing Director, YankeeTek Ventures (max 300 words) analysis) the day before Session 11. Please submit either a PDF or MS Word file, with your name, date and assignment title at the top.

Question: Based on the readings in class, briefly describe and advocate a new venture that could profit from the "Long Tail" effect in a novel and interesting way.

MIT OpenCourseWare
<http://ocw.mit.edu>

15.567 The Economics of Information: Strategy, Structure and Pricing
Fall 2010

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.