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Carrying your long tail: Delighting your consumers and managing your operations

Eric K. Clemons *, Paul F. Nunes

Operations and Information Management, 500 J. M. Huntsman Hall, The Wharton School, University of Pennsylvania, 3730 Walnut Street, Philadelphia, PA 19104, USA

A R T I C L E I N F O

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A B S T R A C T

The growing ability to sell a wider range of goods, in smaller quantities, while still making a profit, is now widely called a *long tail* strategy. Profiting from greater product diversity represents a real change in optimal business strategy, which is based on real changes in customer behavior. Many firms *want* to develop long tail strategies, avoiding competition in mass market *fat spots*, and harvesting the superior margins available through selling in market *sweet spots*. Sweet spot offerings resonate with customers, allowing customers to find what they truly want and to avoid compromises; consequently, customers pay more while remaining happier with their purchases, and firms earn more and are more profitable. Evidence from earlier recessions suggests that in an era of excess capacity and pressures on consumers to find the best possible prices, competing through resonance offerings may represent an important source of protected profits. And yet, carrying a long tail and selling into sweet spots requires new skills, both for locating targets of opportunities and for controlling costs.

1. Introduction to the long tail

1.1. The truth about the long tail

The long tail is now easily observed [1]: where once we had jeans from Levis, Wrangler, or Lee, we now can choose from among dozens of designers, with exotic linen blends or pre-torn knees and cuffs. There are dozens of watch-winding boxes, many in exotic woods, for winding self-winding mechanical wristwatches in case someone has more than one; how else could he keep some watches wound while another is being worn? There are hundreds of highly specialized powerbars, some for bike riders and tri-athletes, some for people seeking to lose weight, some as dietary supplements for weight lifters trying to gain weight; even some specialized for the first tee or the back nine of a round of golf. While once it appeared that America would soon have only a few beer offerings from a pair of major breweries to choose from, Anheuser–Busch's and Miller–Coors's share is actually dropping as thousands of small brewers now offer American consumers thousands of craft brewed beers. The explosion in niche providers has occurred in many categories, where much of the growth in sales has been in long tail products, such as super-premium ice cream (Ben & Jerry's), powerbars (Clif Bars), or non-carbonated beverages (Arizona Ice Tea, Snapple). There has been a surge in demand for fresh produce, store-baked artisan breads, heirloom vegetables such as Black Prince or Green Zebra tomatoes, and heritage meats like Kurobuta pork or Charolais beef. Despite the high research and development costs required, even niche market consumer durables have emerged, like the Prius Hybrid or Hummer H-2 (one making a green statement, the other definitely not).

1.2. The critical distinction between long tail and resonance marketing strategies

The case for the long tail can be over-stated, calling the entire concept into question. Anderson himself clearly overstates the ease of implementing a long tail strategy, implying that since it works for shelf-stable products like those sold by Amazon, it readily generalizes to all categories. Likewise, he clearly overstates the contribution to Amazon's profits from long tail offerings. Fortunately, this has been amply demonstrated by Elberse in the Harvard Business Review [21], and does not require further repudiation now. Anderson picked both a domain where implementation was easy (information goods) and profitability improvements were difficult to demonstrate. And yet, in many industries long tail strategies are both difficult to execute and significant contributors to profitability when implemented properly. The best long tail offerings are examples of resonance marketing, the fitting of products to specific, strongly felt, and unmet wants and needs of groups of consumers. Unlike books and movies, the categories where Anderson claimed the long tail effect was strongest, in many categories, from soft drinks, snack foods, ice cream, and craft brewing, the margins on resonance marketing products are significantly higher than on other offerings. The increased margins and contributions to profits from resonance marketing are newly being felt in industries as diverse as retailing, farming, and consumer electronics.

* Corresponding author. Tel.: +1 215 898 7747; fax: +1 215 898 3664.
E-mail addresses: clemons@wharton.upenn.edu (E.K. Clemons), paul.f.nunes@accenture.com (P.F. Nunes).

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Indeed, the greatest problem with the Long Tail as a contribution to strategy is that the work offers very little explanation of why the long tail has emerged and very little guidance as to when it can and cannot be successfully implemented. Despite claims by Anderson, the long tail did not emerge principally because online sellers were able to offer wider selections, because long tail merchandise costs nothing additional to produce, or because online sellers could hold shelf-stable copies of individual items until buyers demanded them. Indeed, some of the most striking categories of long tail sales, in beer, coffee, non-carbonated soft drinks, artisan breads, non-candy snack foods, super-premium ice-creams, among many, many others, are rarely if ever sold online. While other long tail goods are indeed sold online, the availability of online channels cannot be the principal driver of the long tail phenomenon.

Likewise, the work by Anderson applies best to information goods like books and CDs, which are indeed sold online, are indeed almost free when considering the marginal cost of additional copies, and do have shelf lives measured in decades, unlike the shelf life of weeks for aged cheese, or days for fresh produce, or even hours for shellfish. Indeed, when we discussed the long tail with traditional retailers they became truly indignant, pointing out that long tail cuts of meat or rare imported cheeses cost more than traditional offerings, have limited appeal, and spoil if not purchased quickly. This is not to say that long tail strategies have not been implemented, merely that the retailers with whom we discussed the long tail were indignant at the information goods model implicit in the book.

Finally, while the retailers' discounts may be greater on block-buster hits, the manufacturers' margins are not higher on long tail books or CDs, and indeed the authors' and performers' royalty percentages are actually lower. A first examination would suggest that most authors and most book stores would be more profitable following a winner take all strategy [22].

So why do we have an explosion of long tail offerings in so many categories, if not because of ease of online sales? Four trends seem to be interacting:

- Self-indulgence, cheap luxuries, mass affluence, and stronger preferences, leading consumers to seek greater satisfaction.
- Increased awareness of alternatives, informedness [10], reduced uncertainty discount [10], and trading out [11], allowing consumers to achieve greater satisfaction.
- Increased competition in mass-market categories and the increased competition discount that comes from superior information on pricing [10], from coach air travel to best selling books, leading both producers and retailers to seek increased differentiation, even hyper-differentiation, where possible.
- A growing awareness that differentiation must be informed and targeted.

The first two bullets suggest that information has changed consumer behavior. The third bullet suggests that firms that do not learn resonance marketing will experience greater pressure on margins. The final point highlights the difference between resonance marketing and the long tail. Differentiation and crawling out on the long tail are not sufficient. Differentiation that does not resonate with consumers does not increase sales; it merely increases complexity and operating expenses. Differentiated products that do not resonate with consumers will not be found or purchased; rather than leading to sales, this form of differentiation will lead to information overload and frustration in marketplaces that are seen as increasingly cluttered, not increasingly attractive.

Increasingly, firms are finding that they can now engage in extreme differentiation strategies provided their offerings resonate with consumers, and, indeed, that these strategies increase their profits. This requires a change in the design of individual products, in the management of product portfolio offerings, in manufacturing, in distribution, and in sales and marketing. We call this combination of changes ***resonance marketing*** [10], both to distinguish it from the simpler concept of the long tail, and to focus attention where it belongs, not on the new the availability of online distribution, but on the new ability to target offerings to consumers and to produce behavioral changes.

Of course not everything is a long tail opportunity. There are categories, like movies and other forms of entertainment, where the difference between prices between a block-buster hit and an average movie, that clearly support a winner-take-all strategy [22]. Of greatest interest to us, therefore, are categories where the market price for offerings in consumers' sweet spots justifies the higher production and distribution costs; strategies that seek to hit *sweet spots* [10] are essential to resonance marketing, because the resonance that successful goods and services produce when offered to the right consumers enables higher margins.

Consumer behavior is changing and consumers are demanding resonance marketing offerings. These changes are creating pressure on the profits of established brands, while at the same time margins on new and previously unknown brands, often in new and previously unknown categories, are exploding. And these trends are certainly economically important; more than all the growth in retailers' profits has been in resonance marketing categories, as some sub-categories, and even entire categories, have become little more than loss leaders. In addition, serving niches where consumers have strong preferences remains attractive because demand for resonance offerings is often recession-proof. Ben & Jerry's Rain Forest Crunch is less expensive than an eco-vacation to the Amazon, and Lost Abbey Belgian-style ales from San Diego are far less expensive than a vacation in Belgium.

2. Understanding consumer behavior

2.1. Consumers' increased pursuit of fit with personal preferences

We know why consumers want to buy sweet spot offerings. It surely helps that consumers can find more products [1,6,7]. We make the distinction between the long tail (just increasing variety) and resonance marketing (serving an increasing number of niches where consumers are willing to pay premium prices for perfect fit with their preferences. This is not just pursuit of affordable luxury or ***trading up*** [38], like replacing a Nissan Murano with a more elegant Infiniti FX 35. Nor is it simply the greater demand driven by mass affluence [33]. Rather, it is often ***trading out*** [10], in which consumers seek products not because they are better in any absolute sense, but because they are better for them. A yeasty, bready American copy of a Belgian Tripel, like an Allagash Interlude (with a Ratebeer score of 3.94) is not a better beer than a malty, extremely bitter, well-hopped American Triple IPA, like Founder's Devil Dancer (with a nearly identical Ratebeer score of 3.93). Both are wildly extreme (the Devil Dancer is more than 14 times more bitter than a Budweiser), both have loyal followings, and both are quite expensive, with price tags well over $100 a case.

Why do consumers want long tail offerings, despite the higher prices? Because the increased value that comes from a perfect match with their individual preferences more than compensates for the higher prices. In short, getting precisely what you want as a consumer, even at higher prices, produces additional consumer surplus [6].

2.2. Information, resonance, and the elimination of uncertainty

Why do consumers want to engage in the purchase of sweet spot offerings *now*?[1] The use of the internet for online information in support of selling is turning out to be even more important than the

[1] While repetition of the formal theoretical analyses of the relationship between information and consumer behavior are outside the scope of this paper, as is detailed statistical analyses of the existence of resonance and its correlation with our assumed causes, the interested reader is referred to our previous publications (e.g., [10,11,16]).