

NBA 600


Long Tail and Online Retail

Class 8, Wed 11/7

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Administrative


- Quiz #2 on Monday
- Recap, final projects
 - In-class final presentations, Wed 11/28
 - Okonmah, Farhangi, Figliani – Digital Music
 - Golden, Slowik, Wilks – Virtual Worlds Retail
 - Lim, Moth, Johnson – Patient Health Records
 - Fritz, Adelco, Chang – Digital Banking
 - Others hand in final paper, 12/7 by noon



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Long Tail

- Large (unlimited) selection
 - Yield more total sales from many “niche markets” at “bottom” of catalog than “top”
- Lower price
 - Be profitable through lower cost structures of digital delivery, on-demand creation
- Hits matter
 - Items found by consumers through online search and community software, starting from widely known hits



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What's New With Long Tail?

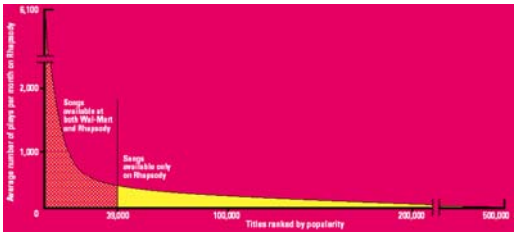

- Scale: digital age making feasible to offer very large selection
 - Traditional catalog might have 10x the items in a store
 - Amazon often has 100x or more
 - Online delivery can make it feasible to have thousands or millions of times the items
- Low fulfillment costs
 - Digital storage cheap and getting cheaper
 - Delivery totally automated, no “warehousing”



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Anatomy of The Long Tail


- Plot of sales rank versus number of sales
- Power law distribution

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Getting the Most from the Long Tail

- Make everything available
 - No such thing as “out of print”
- Cut prices
 - Particularly for items further down the demand curve, to draw more demand
- Help with search
 - Hit items are important because they are widely known but still need good means of linking to related items
 - Online communities that lead from hits to less known works



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Long Tail Backlash

- Lee Gomes, technical writer at WSJ
 - Not much in the tail
 - 2.7% of Amazon titles generate 75% of revenue so long tail not real
 - Anderson's response: "infinite catalog" makes top a smaller percentage, larger denominator
 - Amazon and Rhapsody generate 20-40% sales from non-hits
- Nick Carr
 - Possible negatives of unbundling, reducing choice because "trash hits" no longer support "quality nonhits"

Importance of Online Community

- Search and recommendations drive demand from the hits to other items
- Drive demand from newly discovered items to other items
- Online retailing largely about search and community
 - Have to be good at inventory, fulfillment, customer satisfaction, but not enough to win
 - Much as package freight in 1975-2000 was largely about information not just delivery

Amazon.com

- Launched in July 1995 with two goals
 - World's largest selection of books
 - High value given large number of titles
 - Convenience that delights the customer
- Now a broad-based online retailer
 - Core "media" business (books-music-video)
 - Sales of \$9.7B, ttm
 - 24% quarterly revenue growth, y-o-y
 - Decreasing profits as invest more heavily in technology and new lines of business

What Amazon Provides

- Online storefront – user experience
 - For own stores as well as partners and Marketplace merchants
 - Extensive focus on user experience
 - Driven many innovations, adopted others
 - Total interaction up to receipt of goods
- Payment processing
- Fulfillment
 - Via own warehouses and partnerships with distributors
 - Close integration with shippers (UPS, Fedex)

Amazon Major Online Retailer

- In addition to own site, operates sites for many retailers
 - E.g., Borders (ending), Target
 - Some retailers have completely outsourced their online presence to Amazon
 - E.g., Target started with just front-end but switched to complete solution, recently extended
- Sales partnerships with other large and small merchants, now 30% of sales
 - E.g., Gap, Office Depot, Eddie Bauer, Circuit City, Nordstrom

How Amazon Got There

- Relentless focus on its two main goals
 - Selection and convenience
- Required a certain scale of business to provide large selection profitably
 - In early years pursued growth necessary to achieve that scale
 - Did not scale business at expense of convenience (delighting the customer)
 - Grew quickly but leveled off after 2000
 - Next wave of growth largely from partnerships

Amazon Focus on Customer

- Company seeks employees with customer focus – not just in customer facing roles
 - Including software developers
- Continuous testing in their usability lab
 - Entire experience, not just Web interaction
 - Tradeoff of new features versus clutter
 - Experiments with live site
 - Metrics to evaluate each change
- Leading the customer carefully
 - Ease fears by making one-click easy to cancel

Customer Experience at Amazon

- Search
 - People often know what looking for, make it easy to find
- Personalization
 - Get to know the customer and help them find new things they may not have explicitly been looking for
- Customer reviews and rankings
 - Create a sense of community and interest in items

Customer Experience (Cont'd)

- Convenience
 - Make purchase, delivery and returns easy and dependable
- Customers as allies, friends' circle
 - Give people opportunities to earn credits when they refer purchasers
 - Important for profiting from "Long Tail"
- Sales partners
 - Provide customers with benefits of multiple vendors all within familiar and safe Amazon environment

Value of Information

- Amazon customer service largely about information sharing
 - Information can have high value as part of product or service (e.g., FedEx)
 - Value may not be easy to capture as revenue
- Important to explicitly understand where value is and how to get paid for it
 - Can be difference between large business and nothing
 - E.g., search engines rapidly grew to billions in revenue after introducing keyword bidding

Bringing Customer Inside

- Better customer loyalty by providing more information
 - Adding value for the customer, such as package tracking, recommendations, referrals
- Save money by informing customer more effectively and efficiently
 - Customers want access to information, what is it costing you to provide it
- Learn more from the customer
 - Don't let intermediaries become more knowledgeable than you

Bringing Customer Inside

- How important to Amazon, Fedex (others?)
 - Sharing information to increase loyalty and lower costs
- How broadly applicable?
 - Retail, banking, package delivery, ...
- What benefits and to whom?
- When provides sustainable advantage?
 - Worthwhile even if not?
- Industries where opportunities to do so?

Problems Bringing Customer In

- Can directly expose customer to internals of how company operates
 - Harder to hide problems/errors
 - May make easier for customer to compare with other providers (commoditization risk)
- High standards for system performance
 - Constant availability
 - High variability in load
 - “Real time” nature of information
 - Potentially including connections to suppliers or partners

Amazon's Competitive Positioning

- Now and in the 1990's
 - Substitutes
 - Barriers
 - Supplier power
 - Customer power
 - Industry rivalry
- Customers gaining power with search engines
- Barriers have grown higher as Amazon developed expertise

Challenges for Amazon

- Importance of search in customer experience
 - Search engines, Google, get between them and customer
- Growth of online delivery of their core inventory – books, music, video
 - New competitors such as Apple's iTunes, cable companies selling content
 - Shift of software from goods to services
- Compromising brand with sales partners
 - Confusion with EBay, independent sellers

Next Time

- Google and beyond
 - Read about how adwords and adsense work
 - Read article from Technology Review on search