ECONOMICS OF LONG TAIL, A CHALLENGE FOR BRANDING

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Abstract:

This paper investigates what Economics of Long Tail is bringing to branding. Economics of Long Tale literature highlights new Web 2.0 business models that enables a greater degree in satisfying exactly what motivates consumers most: being treated as individuals not as masses; access to an increased offer variety including custom products; lower prices. Our paper finds out that brand leadership and corporate branding provides the appropriate business philosophy for facing the challenges of the Long Tail. They just have to upgrade themselves with Web 2.0 tools for organizing the day by day cooperation with users. The consequence will be a great pot of customers becoming one of the company's resources directed to deliver the promised brand value following the long-tail rule. Beside users' driven brand sindicalization directed to change perceptions, reinforce attitudes, and create loyalty, the major consequence will be a deep integration of brand's users in the brand nurturing culture. The brand value will go beyond the usual jargon and customers will be able not only to embrace the brand experience but to actually build it, to be a part of it. Our statement that brand leadership and corporate branding provides the appropriate business philosophy for coming years is supported by at least four of today's most innovative and successful brands, that leveraged the Long Tail as part of their businesses: Amazon, Google, Facebook and Apple.

Key words: long tail branding, brand management tailoring long tail economics, economics of long tail, brand leadership, corporate branding

JEL Classification: M31, O33

1. INTRODUCTION

Proliferation of Internet-based communication channels and social media like blogs, podcasts, online video and social networks give voice to millions of consumer opinions. While mainstream media continues to play a vital role in disseminating mass and general information, these social channels are major levers of influence through online conversations, giving rise to a new style of marketing that is characterized by conversation and community (SNCR, 2008). The fact is the failure of marketer's control in the conversation and increasing the importance of word of mouth, referrals and social marketing. It is a totally new, decentralized information flow that brand communication must cope with.

But it is not just that. Web 2.0 age has lead to new Web 2.0 business models that feature both attractive and disruptive characteristics: low cost of entry; massive reach; ability to target niche customers; ability to have meaningful interaction between participants; attractive demographics; threat of replacing existing physical goods and services (e.g., CDs, newspapers); economics of Long Tail (KPMG International, 2009). Suppliers can use unlimited capabilities due to infinite storage and demands that were unable to be met prior to the Long Tail become realized. Long tail businesses can treat customers like individuals using their active contribution in the product innovation process. Lower prices, unpopular and niche products along with personalized taste satisfying become economically viable to offer. So, it is not only about experiencing a paradigm shift in product promotion and communication strategy; it is about a much profound paradigm shift comprising the entire business approach and brand management.

2. THE LONG TAIL PHENOMENON

In 2004 Anderson has coined the term "The Long Tail" to describe the phenomenon that niche products make up a large share of total sales. Describing the effects of the Long Tail Anderson argued that products with a low sales volume can collectively make up a market share that rivals the best-sellers if the distribution channel is large enough. But the distribution and sales channel opportunities created by the Internet often allow such a large product placement. Amazon's book sales was used as example for showing that the total volume of low popularity items exceeds the volume of high popularity items. (Anderson, 2004).

Some of the most successful Internet businesses – like Amazon (retail), eBay (auctions), iTunes Store (music and podcasts) and Google (web search) have leveraged the Long Tail as part of their businesses because it is economically viable to sell unpopular products where inventory storage and distribution costs are insignificant.

2.1. LOWER PRICES AND DIVERSE, NICHE PRODUCTS OFFERING WHERE LONG TAIL WORKS

When storage and distribution costs were high, only popular products were generally offered. Since Long Tail works a wide range of products become available with a large enough array of choices for satisfying minority tastes. The Long Tail encourage product diversification and niche category offering. As Anderson said, "*this is the difference between push and pull, between broadcast and personalized taste. Long Tail business can treat consumers as individuals, offering mass customization as an alternative to mass-market fare. They make everything available, pull customers down the tail with lower prices and help customers to explore and find out what they need.*" [1]

Brynjolfsson et. all showed that, while most of the discussion about the value of the Internet to consumers has revolved around lower prices, consumer benefit from access to increased product variety in online book stores is ten times larger than their benefit from access to lower prices online. They showed that the primary value of the Internet to consumers comes from releasing new sources of value by providing access to products in the Long Tail (Brynjolfsson et. all, 2003).

2.2. PARETO'S 80/20. THE SHIFT FROM BEST-SELLERS TO NICHE PRODUCTS

Many markets have traditionally been dominated by a few best-selling products. Pareto Principle describes sales concentration in 80/20 rule - a small proportion of products (20%) in a market generates a large proportion of sales (80%). In 2006 Brynjolfsson, Hu and Simester found that the Internet markets shifted the balance of power from a few best-selling products to niche products that were previously obscure. The authors discussed also about the amplified effect of Long Tail, including the growth of markets serving smaller niches. By lowering search costs Internet markets increase the collective share of hard-to-find products, thereby creating a longer tail in the distribution of sales. By analysing data collected from a multi-channel retailing company, Brynjolfsson et. all showed empirical evidence that the 80/20 rule needs to be modified to a 72/28 rule in order to fit the distribution of product sales in the Internet channel. As companies invest in ever-more sophisticated information technologies that allow consumers to actively and passively discover products that they otherwise would not have considered, and as consumers gain more experience using these IT-enabled tools, Brynjolfsson et. all findings suggest that product sales will become less and less concentrated. The balance of power will continue to shift from a few best-

selling to niche products more and more easier to be discovered by consumers. They estimate that the Long Tail phenomenon will have a profound impact on a company's product development strategy, operations strategy, and marketing strategy (Brynjolfsson et. all, 2006).

2.3. SOCIAL INNOVATION COMMUNITIES

In their quest for products that are customized for their own needs, users are willing to tell the producer what they want and how it should work. Since 1986 Eric von Hippel noticed the importance of user innovators who share their ideas with manufacturers (free revealing) for enabling those producers to offer the product they want (von Hippel, 1986). In 2009 he reports an empirical research made in 2007 showing that about 20% of the user-innovators surveyed reported transferring their innovations to other users and/or equipment suppliers – and the majority of these did so at no charge to recipients (von Hippel, 2009).

In 2005 Eric von Hippel defined the user-led innovation model concluding that innovation becomes more user-centered (von Hippel, 2005). Today Web 2.0 features the decreasing cost of communication and information sharing. Using Web 2.0 interactive tools, companies can give their users a voice enabling an organized cooperation where users perform a big part of the innovation work. As a consequence long-tailed user driven innovation is gaining importance allowing companies to rely on users of their products and services to do a significant part of the innovation work. Using a long-tailed innovation strategy company is taping into a large group of users that are in the low-intensity area of the distribution. These groups of users act like social innovation communities for the company if they are provided with tools and infrastructure to perform the trial and error process of innovation, share information, test and diffuse the results.

LONG TAIL MARKETING

The low cost and high degree of information sharing has led businesses to implement a series of long tail marketing techniques, most of them based on extensive use of Internet: new media marketing (using social networks and online communities to extend the reach of marketing to the low-frequency, low-intensity consumer in a cost effective way, often through fan pages or profiles on social networks, blogs, RSS feeds and webcasts); buzz marketing (strategic transmission of commercial information from person to person in an online or real-world environment using word of mouth); viral marketing (intentional spreading of marketing messages via social networks, video sharing sites and e-mail with an emphasis on the casual, non-intentional and low cost); Pay per Click and Search Engine Optimization with focus on long-tail keywords which have less competition and can be extremely profitable in terms of a lower cost per action and higher return on investment because they often exhibit a higher conversion rate by up to 200% compared to short-tail generic keywords (Mitchell, 2009).

3. LONG TAIL BRANDING

In 2005 Anderson, the one who coined the term "The Long Tail" and wrote five books on this topic shared his opinion about brands' history:
" In the first half of the 20th century, consistently high quality products were relatively scarce. Product brands prevailed. Over time, more and more products entered the market and shelf space became the scarce good. Power shifted to retailer brands. Now ... the shelf space constraints evaporate ... and the scarce good become customer's attention.

We are moving from product-centric brands to customer-centric brands. Product-centric brands represent promises about products (or retailers) – "buy this product from us because you

can trust that it will be a quality product at good value." Customer-centric brands offer a radically different promise – "*buy from us because we know and understand you as an individual customer and we can tailor an appropriate bundle of products and services to meet your individual needs better than anyone else.*"

Anderson suspects that "*the center of gravity of brands is shifting so much from products to customers that tomorrow's most powerful brands probably won't be companies at all. They'll be the customers themselves.*" ... "*Brand power will shift downstream from the producers to the consumers ... and the brands that matter most will be the tastemakers... "These are the filters you trust" (Amazon, Google, smart software for finding the good stuff, individual tastemakers from celebrities to critics to editors or simple mavens with influential blogs) who point you to the niche (or mainstream) stuff you wouldn't have found on your own. And because you trust them, you're willing to follow their recommendations, voyaging down the tail with confidence.*" [2]

3.1. BRAND MANAGEMENT WINNING MODELS: BRAND LEADERSHIP AND CORPORATE BRANDING

In the recent years successful companies start using brand management as a part of the total management process and not just as a marketing activity. In this perspective, first theorized by Aaker and Joachimsthaler in 2000 when they introduced the brand leadership model, the brand management process acquires both strategic and visionary perspective. Brand is the pillar of the organization and the brand manager is in the top, being a strategist as well as communications team leader (Aaker and Joachimsthaler, 2000). Creating and delivering brand value become the drivers of the business strategy. Brand strategy gives the focus and direction by providing a platform that enables consistency in all actions and activities.

Due to the importance of a multidisciplinary approach in order to manage multiple brands and interactions with multiple stakeholders some businesses shift their focus from product brands to corporate branding (de Chernatony, 1999; Hatch & Schultz, 2003; Urde, 2003; Aaker, 2004)
The corporate brand represents the organization and reflects its heritage, values, culture, people, and strategy. It is defined primarily by organizational associations, and thus can develop and leverage organizational characteristics, as well as product and service attributes (Aaker, 2004).

The organization's core values are the guiding light of the brand building process, both internally and externally. They are built into the product, expressed in behavior, and reflected in communication (Urde, 2003).

Brand leadership and corporate branding leads to brand consistency.

3.2 BRANDING IN THE WEB 2.0 AGE

This paper states that brand leadership model and corporate branding provides the appropriate business philosophy for facing the challenges of the economics of the long tail. Since 2001 Doyle noticed that a good tactic would be to consider alternative media in addition to advertising (Doyle, 2001). In 2010 best practices consider advertising as a good tactic in addition to alternative media. And a big contribution in these alternative media is payed by the long tailed marketing techniques. Due to the mass adoption of social media and especially of social networking sites (SNSs) we can talk about their dominance in the Attention Age of Web 2.0. Consumer-consumer communication produces today a significant share of the amount of information available about products and companies (Universal McCann, 2008). Therefore businesses need to target social media users for inducing consumer's discussions according to the objectives of the brand's performance.

Having the brand as a top priority for the top management who integrates brand building into the overall business concept all resources are directed to deliver the promised value in an integrated way, through products, services, communications, personnel behavior and organizational culture. The result is a unique and valuable customer relationship leading to positive word of mouth and good referrals across social media platforms enabling a competitive social marketing and brand growth. But with a brand building process addressing the four challenges (1. the organizational challenge, 2. the brand architecture challenge, 3. the brand identity and position challenge, 4. the brand building program challenge) as they were detailed in the Aaker's brand leadership model (Aaker & Joachimsthaler, 2000; Aaker, 2004) the only big change for brand lead businesses will remain in the following years to pay enough attention to Web 2.0 and to use the Internet based technologies to enable an organized cooperation with their users, giving them a voice and relying on their contribution in the process of innovation and brand value creation. The consequence will be a great pot of customers becoming one of the company's resources directed to deliver the promised brand value following the long-tail rule. Beside users' driven brand sindicalization directed to change perceptions, reinforce attitudes, and create loyalty, the major consequence will be a deep integration of brand's users in the brand nurturing culture, in the process of brand building. The brand value will go beyond the usual jargon and customers will be able not only to embrace the brand experience but to have the feeling of belonging, of being a part of it.

3.3. SUCCESSFUL BRANDS THAT LEVERAGED THE LONG TAIL AS PART OF THEIR BUSINESSES

Our statement that brand leadership and corporate branding provides the appropriate business philosophy for coming years is supported by at least four of today's most innovative and successful brands, that leveraged the Long Tail as part of their businesses: Amazon, Google, Facebook and Apple.

Behind each of these great brands, there is a clear vision and a strong leadership: Jeff Bezos at Amazon, Sergey Brin and Larry Page at Google, Mark Zuckerberg at Facebook, Steve Jobs at Apple. Bringing their creative visions to life, these strong leaders crafted such enduring experiences that, as Loebman says, "*we live in the world they create for us and pay good money to do so*"*[3]*. Arguing corporate branding approach, in 2003 Urde said that an organization's core values must be the guiding light of the brand building process, both internally and externally. They must be built into the product, expressed in behavior, and reflected in communication (Urde, 2003).

Google's purpose *"To organize the world's information and make it universally accessible and useful." [4]* , is used as example in 2010 by Loebman for warning about the importance of defining organization's unique essential value to the world.

He says: *" This language clearly and compellingly tells the world why it needs Google, what value Google brings to the world, and how Google is different from every other organization on the planet. With a complete understanding of its purpose, consumers can anticipate what their relationship with Google will be, both now and in the future. As long as it sticks to its mission and doesn't do anything "off-brand", Google will always be relevant whether we interact with the brand on - or offline in the future. All of this meaning, derived from one simple sentence as expressed by two strong leaders: Sergey Brin and Larry Page".[3]*

Indeed, all Google's products, behavior and communication reflects the unique essential value they are offering. Even when they are playing with their let's say mimetic logo they are delivering in an exquisite way the promised value of making information universally accessible and useful. In the same time Google's brand portfolio is satisfying simultaneously mainstream and niche taste. Google Labs, maybe the most widely available organized cooperation for innovation and product development between a company and users, demonstrates that Google is a real

customer-centric brand integrating his consumers in the process of value creation and brand building, as Google declares in their culture statement: "*Our commitment to innovation depends on everyone being comfortable sharing ideas and opinions.*" [5]

4. CONCLUSIONS

This paper reviewed Economics of Long Tale theory in an effort to explore possible matching points with existing branding models which would lead to a branding model adapted to Web 2.0 Age.

We found out that both Long Tail and brand-lead businesses have a common root: their customer centered approach oriented to delivering the promised value.

As a plus, Long Tail business deeper integrates the customer in the company's processes of value creation, enabling a greater degree in satisfying exactly what motivates consumers most: 1. being treated as individuals not as masses; 2. access to an increased offer variety including items outside their geographic area and rare or custom, personalized products; 3. lower prices.

Satisfying these three inner needs of consumers which strongly motivates them was only an aspirational goal before Long Tail worked due to the impossibility of targeting large groups of users that are in the low-intensity area of the distribution and because of the much higher costs for: storage & distribution, product innovation & diversification, marketing research, brand-consumer interaction, brand communication.

Our paper finds out that brand leadership and corporate branding provides the appropriate business philosophy for facing the challenges of the Long Tail. At least four of today's best practitioners of the Long Tail Economics are brand-lead businesses: Amazon, Google, Facebook and Apple.

Web 2.0 and social networks aren't just offering more media choices but are a first step for meaningful interactions with consumers which leads to a deeper customer integration in the brand building process. Consequently, following the long tail rules, this will enable brands to offer exactly what strongly motivates consumers: being treated as individuals not as masses; access to diverse, rare or custom products; lower prices.

Already applying the appropriate business philosophy, the challenge for brand-lead businesses remain to upgrade themselves with Web 2.0 tools for organizing the day by day interaction with Internet users.

Overall, our results may prove beneficial both for researchers and practitioners. For researchers it is a starting point for further empirical investigations in long tail branding area. For practitioners our results may prove beneficial for integrating social media in their branding strategy.

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