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Online shopping and the Harry Potter effect

› 22 December 2008 by [Richard Webb](#)
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In other words, says Page, the extra choice available online is of little economic worth to the retailer. "Scarcity in conventional retailers might be a constraint," he says. "But it could also be a discipline, representing an economically optimal inventory."

Results from a study by anthropologist Alex Bentley and economist Paul Ormerod of Durham University, UK, together with anthropologist Mark Madsen of the University of Washington in Seattle, agree with Page and his colleagues' findings (www.arxiv.org/abs/0808.1655). The researchers found that in a fashion-led market, where consumer preferences are fickle and fast-changing, the inventory size that maximises profits is actually very small - equivalent to the 10 to 20 titles often stocked in an airport bookstore.

Even for an online retailer such as Amazon, where the profit-to-overhead ratio per item is very large, the optimum inventory is likely to be considerably smaller than the millions of titles actually offered, says Ormerod. He counsels caution: "It's a good marketing strategy to say you sell everything," he says, "but it is unlikely to be profitable on its own." Elberse agrees: "The long tail was a great idea," she says, "but as a business model it was too optimistic." The greatest attraction for shoppers, she suggests, is probably the aggressive discounts Amazon offers on its blockbuster products.

Anderson concedes that, for producers, the economics of the long tail might be shaky, but defends his central thesis: that the choices internet retailers offer open our eyes to a rich new world of possibilities - and that canny retailers can profit from that. "For most people, there's no money in the long tail," he says. "But then, most books don't make money. Most films don't make money." Nevertheless, a market like this will benefit retailers like Amazon, and more importantly us consumers. We might still subsist on a staple diet of blockbusters, but we can enrich that with other titbits from the tail in a way we could not before.

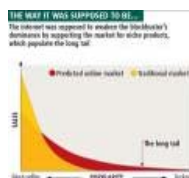
So why, with the cornucopia of goodies now available to us, are blockbusters not just still here, but getting bigger? On the face of it, Anderson's idea of a divergence of tastes in the digital era is logical. But if the long tail effect does not exist, or is not as pronounced as was thought, what is really going on?

Elberse says it's a bit like the influence of multichannel television on the economics of sport. In the old days, if you wanted to watch soccer, you went to watch your local team in the flesh. Now, she says, in the UK you are more likely to decide to stay at home and watch Chelsea play Arsenal. This change of allegiance cuts the cash flowing into the ticket office of your local club while boosting advertising revenues for TV, which accrue disproportionately in favour of the already wealthy top clubs.

It is a phenomenon known to economists as the Matthew effect, after a quotation from the gospel of that name: "For unto every one that hath shall be given." Just as for the long tail effect, there is a plausible explanation of why it should be happening in the modern media environment: easy digital replication and efficient communication through cellphones, email and social networking sites encourage fast-moving, fast-changing fads. The result is a homogenisation of tastes that boosts the chances of popular things becoming blockbusters, making the already successful even more successful.

The winner takes it all

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Duncan Watts, a sociologist at Columbia University, New York, has found evidence of just such an effect. Together with his colleagues Matthew Salganik and Peter Dodds, he tested the effect of communication and peer approval on the musical tastes of 14,000 teenage volunteers recruited online (*Science*, vol 311, p 854). A set of 48 songs was made available to all the volunteers, who could download whichever songs they wanted. The researchers split the volunteers into eight groups; in some, group members could see what their peers were downloading, but in others they had no such knowledge. In the socially connected groups, the winner took all: popular songs became more popular, unpopular songs more unpopular. This effect was much less pronounced in the socially isolated groups.

What's more, there was a sting in the tail for anyone trying to predict blockbusters: in different groups, different songs tended to become the biggest hits. It is a classic butterfly effect: a small preference for a particular object can, in a highly connected community, rapidly amplify and spread its appeal. Increased social connectedness creates bigger blockbusters but makes predicting what they will be all the more difficult.

Which leads to a curious puzzle: why, when we have so much information at our fingertips, are we so concerned with what our peers like? Don't we trust our own judgement? Watts thinks it is partly a cognitive problem. Far from liberating us, the proliferation of choice that modern technology has brought is overwhelming us - making us even more reliant on outside cues to determine what we like (see "I know what you'll buy next summer"). "Google can deliver 100 million songs to you - but your brain hasn't got any faster," he says.

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The Matthew Effect?
Fri Dec 19 20:27:09 GMT 2008 by [Eric Kvaalen](#)

A bit strange to call the effect of "to him who hath shall be given" the Matthew effect, since the same verse appears almost word for word in Mark and Luke as well! And anyway, it was Yeshua who said it.

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What Our Peers Like
Fri Dec 19 22:23:07 GMT 2008 by [Alphachap](#)

"why, ... Are we so concerned with what our peers like? Don't we trust our own judgement?"



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Like many people, any CD or DVD I get is more for my friends and visitors as it is for me.

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Overwhelming

Tue Dec 23 11:59:10 GMT 2008 by **Jag**

I agree with the theory that the extra choice is overwhelming. When I go onto a online shopping site I browse for the items I'm looknig for, I rarely take a wander down the other aisles as I woldn't know where to start. If I'm shopping for a camera, I'm unlikely to end up in cd's like I would in a bricks and mortar store.

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Overwhelming

Mon Dec 29 21:52:04 GMT 2008 by **Rob In Madrid**

Couldn't agree more. The wife and I wanted to rent a villa for 2 weeks this summer and when ever I do a search I get so many choices (and locations costa sol in Spain) that's it's impossible to decide. When we finally did choose one it was because I clicked on someones signature line in a message board it was a web page offering, and wait for it, ONE PLACE, it was a nice web page and I like the look of the apartment and the price was reasonable so I booked it.

Too much choice can be overwehlming

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