

### ***Conventional wisdom upturned***

Conventional wisdom is that the “long tail” opportunity presented by the Internet will continue to squeeze the life out of [traditional media].

Before launching into contrarian mode, a bit of backdrop from the world of media... Investment appetite for unprofitable business has substantially diminished, and even profitable businesses are seeing reduced valuation prospects; by far the greater transactional interest comes from the strategic front (rather than through financial wizardry); advertising expenditures are being consolidated for efficiency; and consumer spending is declining. This “new world” has materialized in just a few months’ time, although it feels like decades, and perspective takes a while to sharpen. Conventional wisdom remains that traditional media, such as newspapers and radio in particular, are in mortal peril. Conventional wisdom is that the “long tail” opportunity presented by the Internet will continue to squeeze the life out of such sectors. Conventional wisdom had equity markets trading at a premium of almost 100% above current levels, less than twelve months ago. The “new world” is challenging conventional wisdom on several fronts. Here is a theory, only a theory: the market’s perspective of the “long tail” is antiquated and flawed, and will in the current climate transform or else become meaningless.

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To be clear, the concept in its original sense is very much thriving, but its meaning has over the years been distorted. Initially coined circa 2004 to refer to the e-commerce strategies of the likes of Amazon and NetFlix, both very successful even in our recessionary climate offering a wide variety of selections to a fragmented customer base at low cost, the term “long tail” has since been extended and diluted to encompass the audience traffic opportunities for non-mainstream platforms, generated by the fragmentary nature of the Internet. In recent years, the term has been used to explain the emergence and to justify the funding of narrow-appeal services and products outside of e-commerce – not only content (e.g., blogs), but also applications (e.g., iPhone apps), and distribution (e.g. digital music destinations) – in the tailwind of a growing economy and free-flowing capital environment.

In this context, the “long tail” designation and its mass market opposite, the “head,” also implied a value judgment, a qualitative commentary, in which “head” was analogous to premium and market leading, while “tail” equated to the more marginal and specialized opportunities, regardless of economic fundamentals. (In

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social networking, for example, Facebook would be considered “head,” in relation to LinkedIn’s much more specialized niche status, despite the latter’s highly profitable business model in contrast to the former’s negative cash flow.)

But now that the economy has stopped growing, and capital is much less flowing, the described way of seeing things seems more and more to teeter on the edge of obsolescence, and it may behoove us to revisit definitions. If both the investment community and strategic competitors seem to prize cash and cash flow above all else these days, why should we not categorize media platforms (both old and new) on the same basis? And if industry participants demonstrate increasingly sharp focus on core markets, (e.g., Yahoo! contemplating the exit of search to focus on its much more valuable content business), why should we not assess market position based on a narrow and more meaningful boundary than, say, the worldwide web? It may be that a previously regarded “tail” enterprise would (and should) now qualify as “head” – with relative valuation and strategic profile in accordance – if assessed on metrics more pertinent to current realities.

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If the thesis holds, then such a product or platform or application could have greater strategic and financial interest than may have been heretofore recognized, and perhaps attract greater transactional attention than some of the “head” competitors in the “old world” sense of the word. Let’s take the hypothetical scenario of a small local radio station with a small sales force that sells local ads to small local businesses in a small town; or let’s take a limited circulation local flyer in the same community. Clearly, these are nothing in comparison to [www.nytimes.com](http://www.nytimes.com), or Pandora Radio. Were we, however, to consult with the local pizza parlor to see if the owner would rather spend \$500 to run a local (analog) ad every Thursday, or far less, say, \$20 for a banner on either of the enormously popular web destinations, the probability is very high that the decision would still favor local analog. And for this reason, the real-life counterparts of the two hypothetical media properties are very likely cash flow positive, whereas the two actual web businesses are by all accounts not.

Of course we don’t want to suggest that the local paper of a small town is worth more than the New York Times website, or that the possibilities for Facebook are less than those of Linked In. But we do offer for consideration that certain phenomena may warrant rethinking in the face of new realities that are more than a



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temporary correction, when these phenomena were born in an environment in which business objectives, as established by capital sources, were vastly different from what these objectives have become (and had been previous to a very unique time in the world economy). And again, we question the definition that would relegate that profitable local radio station that ranks at the top of its small market to niche (“long tail”) status in the grand scheme, while in that same market only audiophile teenagers with little spending money fool around with the “mainstream” Pandora, deemed to be at the “head” of its addressable audience (the world).

The relevance of these questions and arguments is not merely academic. Because providers of capital, advertisers, and industry competitors, all define market segments carefully and plan spending, investment, and expansion strategies accordingly, labels and definitions do matter. As we continue into an environment in which strategic considerations are likely to dominate the transactional dialogue, and in which cash and revenue sources are at a premium, fragmentary and dilute business models, even if serving a mass market, may have reached a point of diminishing returns.

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