

**Superstars and Underdogs:**  
**An Examination of the Long-Tail Phenomenon in Video Sales**

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## **Superstars and Underdogs:**

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#### **ABSTRACT**

Academics and industry observers sharply disagree on how online distribution will change the number and variety of products that consumers purchase. Proponents of the “long-tail” idea argue that a significant increase in the supply of products through online channels will fuel a shift in consumption away from hits to a vast number of lower-selling niche products. The “superstars” theory predicts the opposite: as consumers have access to their favorite content wherever they are and whenever they demand it, consumption patterns will become more, not less, uniform. To examine these competing hypotheses, we study the distribution of sales in the U.S. home video industry for the 2000 to 2005 period. We find a long-tail effect in that the number of titles that sell only a few copies every week increases almost twofold. At the same time, however, the number of non-selling titles quadruples. We also find evidence of a superstar effect. Among the best-performing titles, an ever-smaller number of titles accounts for the bulk of sales. The caveat here is that the decline in sales, which we observe across all quantiles of the sales distribution, is most pronounced among best-selling titles. Our findings thus point to significant marketing challenges for the entertainment industry.

## **Superstars and Underdogs:**

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Industry observers and academic researchers agree that the digitization of information goods and the rise of online distribution channels will fundamentally alter the type and variety of products that consumers purchase. The views starkly differ, however, on what type of change will occur. On the one hand, the theory of “superstars,” introduced in the 1980s and particularly popular in the field of economics, predicts that lower distribution and transaction costs will homogenize patterns of consumption (Rosen 1981). Because consumers prefer to watch the most talented performers and technology allows these performers to be everywhere at once, a few superstars will come to dominate the marketplace, resulting in winner-take-all outcomes (Frank and Cook 1995).

A more recent, alternative theory predicts exactly the opposite. The proliferation of online channels will make consumption more heterogeneous, sharply increasing the variety of products on offer and fueling a shift in consumption away from a relatively small number of “hits” to a much larger number of lower-selling niche products. Dubbed the “long tail” (Anderson 2006), this view holds that niche products will become more prevalent because online retailers are able to catalog and provide a much larger number of products than bricks-and-mortar stores. Moreover, with the help of online search and filtering tools, consumers will find it easier to search for and discover obscure products (Brynjolfsson, Hu and Smith 2003, 2006). Anderson (2006) predicts that the demand for products only available in online stores will become as large as the demand for products sold through offline channels, but provides virtually no evidence to support his hypothesis.

Which version of the future will emerge is subject to a heated debate. While the long-tail conjecture appears to have caught on in business and many companies have started to put more emphasis on niche products, others dismiss these ideas as “Web utopian fantasies” (The Wall Street

Journal 2006a, 2006b). The outcome is critical for producers' and retailers' strategies. With limited space on store shelves, producers were traditionally very discriminating about what they released, and they focused their marketing efforts on a handful of likely hits. Producers and retailers are now faced with the question whether they need to alter how they develop and manage their assortments.

To examine the competing perspectives on how the growth of online distribution is affecting markets, we study the distribution of revenues across products in the context of the U.S. home video industry for the 2000 to 2005 period. We use a comprehensive data set that covers weekly DVD and VHS sales for a random sample of nearly 5,500 unique titles. Video sales are a particularly suitable product category to examine because of the rapid rise of online distribution channels. In 2001, pre-recorded DVD and VHS videos accounted for \$636 million in online sales. By 2005, this number had jumped to \$1.5 billion (Euromonitor 2006). As the long-tail idea would predict, there is anecdotal evidence that this rise in sales went hand in hand with a drastic increase in the number of products on offer. For example, online retailer Amazon is adding 10,000 to 15,000 DVD titles every year, now offering more than 80,000 titles. Our modeling approach is three-fold: we use non-parametric tests to assess shifts in the sales distributions over time, employ quantile regression models to control for the changing composition of product characteristics, and run negative binomial regression models to study changes in the number of titles that meet particular sales thresholds.

Our results show that the distribution of DVD and VHS video sales changed significantly during our study period. We find a flattening of the tail, which is consistent with the idea that studios sell fewer copies of a larger number of titles. At the same time, top movies in 2005 clearly did not do as well as the most successful titles in 2000. Collectively, the sales of superstar products declined in every single year since the beginning of our study period. But are the "underdogs" beating the superstars? The answer is no. In 2005, there were 1.5 times as many titles as in 2000 that

sold between 1 and 10 copies per week. Clearly, the long tail is populated by a larger number of products. However, even more strikingly, there was also a dramatic increase in the number of titles that did not sell at all. Compared to 2000, the number of titles with zero weekly sales in 2005 almost doubled, suggesting there are significant business challenges for companies that attempt to benefit from the long tail of underdogs. At the “superstar” end of the distribution, the lower sales are achieved by a significantly smaller number of titles. While best-selling titles do not reach previous sales levels, there is a significant concentration of success on ever fewer titles.

In the remainder of the paper, we first review the theoretical ideas and the literature that documents the phenomena. We then describe our data, outline our empirical approach, and present the results.

### **THEORY: LONG TAILS AND SUPERSTARS**

Proponents of the long-tail theory point out that, across many product categories, brick-and-mortar retailers offer consumers a rather limited variety of product choices. For example, a typical video retailer carries around 5,000 titles. With about 1,500 DVDs, choices at Wal-Mart are even more limited. In contrast, online retailer Amazon, which accounts for over a third of all DVDs sold online, offers nearly 80,000 titles and may add up to 15,000 titles every year (also see Anderson 2006).

The wide selection of online retailers reflects forces on the supply and the demand side of the market. On the supply side, sellers’ transaction costs, the costs involved in distributing goods and collecting payment, are generally lower online (Alba et al. 1997). Whereas adding additional titles requires more physical space in traditional retail environments, adding variety and communicating the additional choices and prices to customers is much less costly for web-based retailers. Online retailers simply do not face the shelf space constraints that bricks-and-mortar stores are forced to

manage, and they can use recommendation engines and other technologies to effectively manage their libraries (Brynjolfsson, Hu and Smith 2003, 2006, Fleder and Hosanagar 2007, Hervas-Drane 2007, Oestreicher-Singer and Sundararajan 2006, The Economist 2005), particularly for information goods that can be digitized and distributed almost without cost via the Internet (Bakos and Brynjolfsson 2000). On the demand side, search costs, the costs incurred by a buyer to locate an appropriate seller and purchase a product, are lower in online channels (Alba et al. 1997, Bakos 1997). Electronic marketplaces lower buyers' costs to find obscure products and obtain information on prices and other product attributes, leading to reduced "fit" costs resulting from consumers making suboptimal product choices (Bakos 1997, also see Lynch and Ariely 2000).

Long-tail enthusiasts predict that, as a result of these forces, the economy will increasingly shift away from a focus on a small number of hits and toward a huge number of "niches" (Anderson 2006). We can illustrate the core idea of the long tail using a classic distribution curve that ranks products by their sales, starting with the highest-selling items on the left side (the "head" of the distribution), and the lowest-selling products on the right side (the "tail"). The **"long-tail" hypothesis**, illustrated by the curve superimposed on a base distribution in Figure 1, can be described as follows:

*Over time, as online channels proliferate, the mass of the distribution of sales across video titles shifts towards the tail, i.e. toward more obscure titles that each generate a relatively low level of sales, which comes at the expense of the more popular items.*

--- **Figure 1** ---

A large body of marketing research on the demand for product variety yields two theoretical arguments that are consistent with the idea that consumer demand for niche products will surge as the number of product offerings increases. First, with a larger selection of products, customers

benefit from being able to identify and purchase products that better match their preferences (e.g., Kahn and Lehmann 1991, Hoch, Bradlow and Wansink 1999, Iyengar and Lepper 2000, Chernev 2003, Waldfogel 2003, George and Waldfogel 2006, also see Häubl and Trifts 2000, and Lynch and Ariely 2000). Second, variety can directly contribute to consumer welfare. Due to satiation, curiosity, or fluctuating requirements, an individual consumer will often seek variety within and across consumption occasions (Kahn 1995). The argument implies that a movie buff will prefer a more diverse library of DVDs not only because these titles better match her preferences but also because she values diversity itself.

However, some recent research has questioned the “variety-is-good” belief. Overwhelmingly large assortments can create confusion or frustration among consumers and can even lead them to making no choice at all. This effect, which Gourville and Soman (2005) call “overchoice,” has now been documented in numerous settings (e.g., Dhar 1997, Huffman and Kahn 1998, Lehmann 1998, Iyengar and Lepper 2000, Boatwright and Nunes 2001, Chernev 2003, Broniarczyk, Hoyer and McAlister 1998).

In contrast to the long-tail conjecture, economists following Rosen (1981) have argued that people tend to converge on the same hit content regardless of the breadth and depth of niche content available. This “superstar” phenomenon is the result of two factors. First, lesser talent is a dominated choice: why would people listen to, say, a recording of the world’s second-best tenor if the best is also available? Second, books, records, videos and other information goods are costly to produce but not to reproduce, making popular products disproportionately profitable. (This cost advantage is particularly strong in digital contexts, where reproduction and distribution costs approach zero.) Superstars can also emerge as the direct result of consumer preferences. Frank and Cook (1995) attribute the existence of “winner-take-all markets” to the social nature of people, pointing out that people have a keen interest in reading the same books and watching the same

movies that others consume. Some media research indeed suggests that increases in the diversity of media content may in fact reduce the demand for variety (e.g., Napoli 2003, Neuman 1991, Webster 2005). McPhee (1963) was first to describe this phenomenon as the double jeopardy in markets for media products: less popular cultural products not only have smaller audiences, these audiences are also less loyal (see also Ehrenberg and Goodhardt 1990).

This line of reasoning predicts that the rise of online distribution will result in a few dominant superstars. The “**superstars**” hypothesis, illustrated in Figure 1 by a second curve superimposed on the benchmark distribution, can therefore be described as follows:

*Over time, as online channels proliferate, the mass of the distribution of sales across video titles shifts towards the head, i.e. toward more popular titles that each generate a relatively high level of sales, which comes at the expense of the more obscure items.*

In summary, both superstar and long-tail proponents agree that consumers were constrained in an analog world with physical distribution. For example, the limited portability of music meant that many consumers listened to radio stations that sometimes did, and often did not play their favorite songs. In the age of the iPod, this constraint is relaxed considerably, allowing consumers to listen to what they like wherever they are. The superstar and the long-tail view of the world differ sharply, however, in what individuals will consume once they are free to choose from a larger selection. The rise of online channels now affords the opportunity to study consumers’ demand for obscure products.



## DATA

### Data Source: Nielsen VideoScan

In our empirical analysis, we study home video market in the period from 2000 to 2005. Our data come from Nielsen VideoScan, a leading provider of information on video sales. Nielsen VideoScan tracks weekly sales for video titles sold in the United States. Sales are reported by format, DVD and VHS. They can also be broken down by channel: “discount mass stores” (e.g., Kmart, Shopko, and Target), “drug stores” (e.g., CVS, Rite Aid, and Walgreens), “grocery stores” (e.g., Abertson’s, Pathmark, and Safeway), “specialty retail” (e.g., Blockbuster, Hollywood Entertainment, and Suncoast), and “other mass stores,” which covers both offline (e.g., Best Buy, Circuit City, and Costco) and online stores (e.g., Amazon.com, and Borders.com).

We focus our analyses on the period from January 2000 through August 2005 and concentrate on a random sample of titles available in this period. The Nielsen database lists titles alphabetically, presenting information on 50 titles on a single webpage. We created our sample by randomly calling up such pages, recording the sales histories for all 50 titles that appear on a chosen page. The resulting sample includes nearly 5,500 unique titles, 3,700 titles in DVD format and (partly overlapping) 3,000 titles in VHS format.<sup>1</sup> For each title, Nielsen provides a wide variety of characteristics, including the genre, rating, type (e.g., live action versus animated), original language, release language, translation form (e.g. dubbed versus subtitled), runtime, distributor, release date, first release window (e.g., theatrical, television, or direct-to-video), and manufacturer suggested retail price. Table 1 provides descriptive statistics for the variables included in the analysis.<sup>2</sup>

### --- Table 1 ---

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<sup>1</sup> One “unique title” can include multiple releases of a title, such as a Director’s Cut released a few months after the original version, or a wide-screen and full-screen edition released simultaneously.

<sup>2</sup> Sales information is missing if a title was not available in a given format and week; a zero sales level indicates the title was available but not selling.

### **Industry Context: The Home Video Industry**

Because U.S. consumers spend nearly three times as much on videos than on movie theater tickets (Entertainment Merchant Association 2006), home videos are of vital importance for the film industry. Critically, the video window has undergone radical changes in the period under investigation. After DVD technology was introduced in 1997, DVD titles rapidly grew to replace VHS titles as the dominant video format. The percentage of U.S. households with at least one VCR player peaked in 2003, at 92% (Television Bureau of Advertising, 2007). The number of U.S. households with at least one DVD player jumped from 13 million to 65.4 million from 2000 to 2004 (Standard & Poor's 2006), and there was a significant shift towards buying and renting DVDs. In our data, only about 24% of unit sales were on DVD in 2000, while this fraction rose to nearly 97% by 2005. Figure 2 displays the trends in DVD and VHS sales, as well as sales by channel.

#### **--- Figure 2 ---**

Fueled by the growing popularity of DVDs, the home video market increased nearly three-fold from \$8B in 2000 to about \$24B in 2005. Specifically, Americans spent \$23.84 billion on video purchases and rentals in 2005, with sales accounting for over \$16 billion (Video Business 2006). Spending on DVDs amounted to \$22.4 billion, which included \$15.7 billion in sales and \$6.7 billion in rentals (Entertainment Merchant Association 2006, Video Business 2006, Standard & Poor's 2006). Lower prices (most DVDs now sell for \$15 to \$20) coupled with a shortening of the time between theatrical and video releases (on average, DVDs are released for retail sale four months after theatrical release, down from an average of six months a few years ago) helped to significantly grow the video sales market.

Importantly, our study period was characterized by a rapid development of the Internet as a retail channel. According to Euromonitor (2006), the number of online households jumped from just under 45 million in 2000 to over 80 million in 2005. The number of online buyers nearly

doubled from 66 million to 123 million between 2001 and 2005, while online shopping expenditures more than doubled in the same period, from \$31 billion to \$77 billion. The central category in this manuscript, pre-recorded DVDs and VHS videos, accounted for \$636 million in sales in 2001 and over \$1.5 billion in 2005. Amazon, which began selling videos in 1998 but offered only about 2,000 DVDs at the time, has been ranked the number one online retailer of VHS videos and DVDs since 1999 (VSDA 2005), and now offers more than 80,000 titles.<sup>3</sup>

### **Data Limitations**

While the Nielsen VideoScan data are the most comprehensive source of information on industry sales, the available data have a number of limitations. One noteworthy shortcoming is that Wal-Mart does not report its sales to Nielsen (or to any other organization). Another limitation is that VideoScan does not track sales for titles that sell through Amazon.com's Marketplace. Most importantly, however, Nielsen does not break out Internet sales in its statistics. These sales are incorporated in the "other mass and Internet" category shown in Figure 2.<sup>4</sup> Hence, we will rely on overall sales to study changes in the distribution of revenue. While it would clearly be desirable to study Internet sales as a separate category, insights into changes in the overall distribution of sales are particularly valuable for two reasons. First, a critical question for media companies is if the sale of niche products crowds out the sales of "hits," an effect that will only be visible in overall sales. Second, there is some reason to believe that the long-tail phenomenon could also change the distribution of sales in regular stores. For example, Barnes & Noble attributes a net increase in special orders in its brick-and-mortar stores to consumers discovering new books online

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<sup>3</sup> Although video rentals are outside the scope of our study, the growing user base for Netflix, an online retailer with a DVD-by-mail rental subscription model, also illustrates the rapid rise of the Internet as a video distribution channel: Launched in 1998 with 900 titles, Netflix surpassed 1 million subscribers in 2003, and offered roughly 50,000 titles to 4.5 million customers at the end of our study period.

<sup>4</sup> While Nielsen VideoScan has the capability to measure online sales as separate category, and even at the level of individual retailers, its contractual arrangements with those retailers prevents it from releasing this information.

(Brynjolfsson, Hu and Smith 2003). If these types of spillover effects are important, the total long-tail effect should be measured as changes in the distribution of overall sales.

The data enable us to control for two alternative explanations for a shift in the distribution of sales. First, one could argue that a shift across video titles could be due to a change in the composition of the DVD buying population. It may well be that early DVD adopters were more likely to be interested in a larger assortment of titles, which would lead to an overestimation of the long tail based on early data. However, by comparing DVD and VHS sales for individual titles, we can account for changes in the composition of the user base. Because the two technologies are substitutes and early DVD adopters are likely to be former VHS users, we would expect to see the exact opposite effect for VHS if this explanation were to hold. If we also find a shift towards the tail for VHS sales, that provides even more compelling evidence of the long-tail effect. The same applies to our analysis of the possible changing composition of titles in the head and tail of the distribution: comparing, say, genre shifts in DVD versus VHS sales will provide a richer insight into a possible long-tail trend.

Second, one could argue that a possible shift in the distribution of sales across titles is simply due to an increase in the supply of titles—either re-releases of old hits or new releases of niche titles, rather than a demand effect. Fortunately, we have data on the number of titles that enter the marketplace and can directly investigate whether changes in week-to-week supply of titles fully explain potential shifts in the distribution.

## **MODELING APPROACH**

Our modeling approach consists of three stages. First, we examine whether the distribution of revenues across available titles has shifted from year to year using simple nonparametric tests. Second, we estimate a quantile regression model to examine the factors that underlie the shift in the

distribution of sales. Third, we estimate a negative binomial regression model to see whether the number of titles reaching particular sales targets has changed over our study period.

### **Inter-Quartile Statistics**

As a first step in understanding whether the distribution of sales across titles shifts from year to year, we compare the location, scale, skewness, and kurtosis. We also generate two inter-quartile measures,  $(Q_{0.50}-Q_{0.25})/Q_{0.50}$  and  $(Q_{0.75}-Q_{0.50})/Q_{0.50}$ , where  $Q_{\theta}$  denotes the sales for the title in the  $\theta^{\text{th}}$  quantile, with  $\theta \in (0,1)$ , that capture how the left tail and right tail shift relative to the median, respectively.

### **Quantile Regression Model**

A weakness of these nonparametric test results is that we cannot be certain if the observed changes in the distribution of sales are due to changes in product characteristics or changes in consumer behavior. We explore this distinction in a series of quantile regression models. Introduced by Koenker and Bassett (1978) and growing in popularity in the fields of finance and economics, quantile regression is rarely used in the field of marketing and management (studies by Taylor and Bunn (1999) and Dotson, Retzer and Allenby (2007) are notable exceptions), presumably because most research is concerned with average effects.<sup>5</sup> In our context, however, it is critical to be able to see how changes in the business environment affect the tails of the distribution of revenues. In a quantile regression model, a specified conditional *quantile* (or percentile) of the outcome variable is expressed as a linear function of observed covariates. (In OLS regression, in contrast, the *mean* of a continuous response variable is expressed as a linear function of a set of independent or predictor variables.) By examining multiple quantiles, we can assess how the distribution changes with

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<sup>5</sup> Quantile regression models are more common in the fields of labor economics, micro-economics and finance. In his keynote at the 2006 Marketing Dynamics Conference at UCLA, econometrician and Nobel Laureate Clive Granger noted quantile regression's promise in addressing marketing problems.

covariates, allowing richer inferences (e.g., Powell 1991, Koenker and Hallock 2000).<sup>6</sup> We estimate models of the following general form:

$$Q_{\theta}(y|x) = x'\beta(\theta) \quad (1)$$

where  $Q_{\theta}(y|x)$  denotes the  $\theta^{\text{th}}$  quantile of the distribution of  $y$ , the log of video sales, given a vector  $x$  of covariates. The conditional quantile framework provides a full characterization of the conditional distribution of sales in much the same way as ordinary sample quantiles characterize a marginal distribution (Machado and Mata 2005). Quantile regressions are especially informative in our context because we do not expect the heterogeneity in the conditional distribution of  $y$  to be captured by location shifts only. To identify the emergence of a long tail in this setting, the covariates in (1) include a set of annual indicators for year  $t$ . If a longer tail emerges in our study period, we expect the coefficients on the year effects to decrease in size,  $\beta_t(\theta) > \beta_{t+1}(\theta)$ , for some quantile  $\theta$  in the tail end of the distribution. In other words, we should see sales per title fall over time as the tail gets longer.

### **Negative Binomial Regression Model**

Declining sales per title in the tail end of the distribution can be due to changes other than the emergence of markets for niche products. For example, if the longevity of titles declines over time such that once popular titles sell fewer copies once they have been out for a while, this trend too would manifest itself as a flatter tail. To distinguish these types of explanations from the long-tail phenomenon, we analyze changes in the number of titles in the tail. When niche markets become more prominent, average sales will decline but the number of products will increase. As our

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<sup>6</sup> As Koenker and Hallock (2000) explain, quantile regression cannot be achieved by segmenting the response variable into subsets according to its unconditional distribution and then doing least squares fitting on these subsets. Such a form of “truncation on the dependent variable” is doomed to failure for the reasons laid out in Heckman’s (1979) work on sample selection.

dependent variable is a count variable, namely the number of titles that meet a particular sales threshold, we estimate negative binomial regression models (Coleman 1964).<sup>7</sup> The sales thresholds we investigate are the 70<sup>th</sup>, 80<sup>th</sup>, and 90<sup>th</sup> percentile of weekly sales. Our controls include characteristics of the population at risk such as the fraction of titles belonging to a particular genre. An advantage of these count models is that we can include a control for the total number of titles that are available in a given year. This allows us to directly test if the long tail is due to release decisions by film producers. As in the quantile regression models, we track changes in the number of titles over time by including year indicators, expecting the coefficients to follow  $\beta_t(\theta) < \beta_{t+1}(\theta)$  if there is a growing long tail in video sales.

## FINDINGS

Our discussion of the findings is organized along the three stages in the modeling approach—inter-quartile statistics, quantile regression, and negative binomial regression, respectively—but we start with general observations about the shape of the distribution of sales across titles. Table 2 sheds light on the distribution of sales by quantile.

### --- Table 2 ---

Table 2 suggests that the home video sales market has become more concentrated over time. Consider Table 2a, which lists the percentage of sales accounted for by each decile of titles, as well as the 95<sup>th</sup> and 99<sup>th</sup> percentile. For VHS titles, for instance, 80% of title-by-week observations account for nearly 3% of sales in 2000, but less than 1% of sales in 2004 and 2005. Similarly, 99% of the observations account for nearly 50% of sales in 2000, and slightly more than half of sales in 2001, but only around a third of sales in 2004 and 2005. The same pattern is visible for DVD titles.

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<sup>7</sup> In a general form, for a discrete random variable,  $Y$ , and observed frequencies,  $y_i$ ,  $i = 1, 2, \dots, N$ , where  $y_i \geq 0$ , and regressors  $x$ , the probability distribution for the negative binomial regression model can be expressed as  $P[Y = y_i | \varepsilon] = e^{-\lambda_i \exp(\varepsilon)} \lambda_i^{y_i} / y_i!$  where  $\ln \lambda_i = \delta' x_i + \varepsilon$  and  $\exp(\varepsilon)$  is gamma distributed with mean 1 and variance  $a$ . (Greene 1997).

Here, 80% of the title-by-week observations account for around 8% of sales in 2000 and 2001, but closer to 4% in 2004 and 2005, while the percentage of sales accounted for by 95% of the observations drops from over 25% to below 20% in the same period. For both formats, the tail appears to have become flatter.

Table 2b, which lists the median number of titles that exceed a specific weekly sales level, reports absolute shifts. Across all formats, the number of titles that generate no weekly or annual sales increases. The number jumps from nearly 500 titles in the year 2000 to over 2,000 titles in 2004 and 2005 for VHS titles, and from less than 100 titles in 2000 to over 1,000 titles in 2005 for DVD titles. The trend is captured in the reported percentage of titles with non-zero sales, which drops from 75% in 2000 to below 50% in 2005. The median number of titles that have sales levels that put them below the 50<sup>th</sup> percentile increases as well: across both formats, this number jumps from over 1,300 titles in the year 2000 to nearly 2,200 titles in 2004 and nearly 3,300 titles in 2005. This increase is solely due to DVD sales—the opposite pattern is found for VHS. The median number of titles in the 99<sup>th</sup> quantile also shows the sharpest increase for DVD sales, where it jumps from 5 titles in 2000 to 33 titles in 2005.<sup>8</sup>

### **Inter-Quartile Statistics**

Table 3 reports summary statistics for the distribution in sales.

#### **--- Table 3 ---**

For the full sample, the location of ( $Q_{0.50}$ ) decreases, while the scale, skewness and kurtosis measures mostly increase from year to year.<sup>9</sup> This is consistent with a scenario in which the distribution becomes more dispersed, more asymmetrical, and develops a sharper peak and a longer tail. The

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<sup>8</sup> Analyses with different levels of aggregation (e.g., annual as opposed to weekly sales) and other ways of defining titles (e.g., counting a director's cut and a regular version of a title as one product) confirm these patterns.

<sup>9</sup> Kolmogorov-Smirnov tests (which consider the maximum vertical distance between two empirical distribution functions and are sensitive to both the location and shape of the distributions) confirm that the distributions of weekly sales across titles are significantly different for 14 of the 15 pairs of years.



inter-quartile metric ( $Q_{0.75}-Q_{0.25}$ ) sharply decreases in the period from 2000 to 2005. The left-tail inter-quartile measure is either close to one, which is consistent with a very long, low sloping tail, or is missing if  $Q_{0.50}$  corresponds to zero sales. The occurrence of many zero sales also explains missing values for the right-tail inter-quartile measure, which otherwise does not reveal a clear trend.

### **Quantile Regression Model**

Many factors can explain the changes documented in Table 3. Perhaps the studios released more comedies in later years, or released more titles directly on video, or simply flooded the market with old material—each of these and other factors could induce a change in the distribution of sales. The quantile regression models in Tables 4a and 4b separate out these types of explanations from a claim that the sales distribution has shifted more generally.

#### **--- Table 4 ---**

Table 4 displays estimation results for an OLS model as well as for quantile regression models for the 40<sup>th</sup>, 50<sup>th</sup>, 60<sup>th</sup>, 70<sup>th</sup>, 80<sup>th</sup>, 90<sup>th</sup>, 95<sup>th</sup>, and 99<sup>th</sup> quantile. The dependent variable is the log of weekly sales for all titles in our sample, provided the title was available in the channel. The effect of a covariate on log sales varies freely from quantile to quantile. A total of 573,753 observations are included in the analysis. The fit of the models is reasonably good: the OLS model explains about a third of the variation in the data, while the quantile models generate Pseudo *R*-squared values that vary between 0.08 for the 40<sup>th</sup> quantile (the lowest quantile that can be estimated given the high frequency of zero sales) and 0.26 for the 70<sup>th</sup> through 90<sup>th</sup> quantile.

In Table 4a, we study changes in the overall distribution of sales across both formats over time. The OLS results indicate that mean predicted sales declined from year to year. All coefficients on the annual indicators are negative and statistically significant. A similar trend can be observed for the lowest quantile ( $\theta=0.40$ ), but the trend is clearly less pronounced. This decline in sales is consistent with the long-tail idea. As a larger number of lower-selling titles appear in the tail,

predicted sales will fall. Looking at the best-selling titles ( $\theta=0.95$  and  $0.99$ ), Table 4a shows a more drastic decline. For 2005, the coefficient for  $\theta=0.99$  is more than five times as large as the coefficient for  $\theta=0.40$ , indicating there is significant heterogeneity in how sales develop over time. Note that these models control for the large number of product characteristics reported in Table 4a, so these changes are not the result of releasing different types of products. In terms of our hypotheses (Figure 1), we observe that the distribution of sales has shifted down in general, but this shift is largest for the better-selling titles. The tail of the distribution has seen a much smaller decrease, implying a shift in the mass towards niche products.

When we allow sales to vary by format and year (important because DVDs became much more popular during our study period), we find the results reported in Table 4b. To facilitate the interpretation of the estimates, Figure 3 provides quantile plots—constructed using the information in the table—for six key covariates.<sup>10</sup>

### --- Figure 3 ---

The quantile figures plot the quantile on the horizontal and the log of sales on the vertical axis. For each of the coefficients, we plot the quantile regression estimates for  $\theta$  ranging from 0.40 to 0.99 as the solid black curve. The point estimates, shown as dots, can be interpreted as the impact of a one-unit change in the covariate on log sales, holding everything else constant. The gray area depicts the 95% confidence band. The thin straight line in each plot shows the OLS estimate of the conditional mean effect; with the 95% confidence interval.

Consider the quantile plot for “DVD,” an indicator variable for the format. The OLS estimate of 0.85 suggests that, holding all else fixed, DVDs generate higher sales than the alternative format, VHS videos. However, according to the quantile plot, that is an accurate estimate only for titles somewhere around the 70<sup>th</sup> and 80<sup>th</sup> quantile. In lower quantiles, DVDs generate relatively

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<sup>10</sup> See for example Koenker and Hallock (2000) for an introduction to the interpretation of quantile plots.

higher sales, compared with VHS videos (the coefficient for the 50<sup>th</sup> quantile is around 1.48), while for the very high quantiles, DVDs actually generate significantly lower sales than VHS videos (the coefficient for the 99<sup>th</sup> quantile is -0.37). Similarly, the negative OLS estimate for the genre dummy “Documentary” (the coefficient is -0.548) shows that documentaries generate lower sales than other genres, holding all else constant. However, according to the quantile regression results, the disparity is smaller in the lower quantiles of the distribution and larger in the head of the distribution. Again, OLS estimates do a rather poor job of representing these disparities.

The quantile regression analyses document three interesting patterns. First, when we look at the estimates for the “DVD” dummy (which featured in the example above), it is clear that DVDs on average are associated with higher sales, but not so in the higher quantiles of the distribution. That is, among hit titles in the period under investigation, DVDs tend to generate lower sales compared with VHS videos. The pattern is again consistent with a situation in which more, and particularly more obscure, titles are released on DVD, whereas titles for a more mainstream audience tend to appear on VHS, and therefore by definition generate higher sales within the higher quantiles.

Second, sales for the VHS and DVD trend downward. This is evident in Figure 4 where the “Year” indicators reflect the trend for VHS sales and the “Year” + “(DVD × Year)” indicators capture the trend in DVD sales. However, there are important differences in how this sales decrease plays out. For VHS titles, the sales decline is particularly striking in the head of the distribution. For DVDs, the difference across the years appears slightly more pronounced in the lower quantiles. In other words, DVD titles are selling fewer units from year to year, and the “pain” is felt rather more

by the obscure titles, as compared with the hit titles. On a sales-per-title basis, the more obscure titles generate fewer and fewer sales over time.<sup>11</sup>

--- **Figure 4** ---

Third, the “Fraction of Sales on DVD” variable allows us to examine whether unobserved characteristics of people switching from the VHS to DVD format play a role in these trends. Suppose it were true that movie buffs are early adopters of the DVD format because they value the better quality. If these movie buffs also like variety, the share of a title’s sales in the DVD format proxies for such tastes, suggesting we should see a negative coefficient on this variable, particularly in the tail of the distribution. The negative OLS coefficient is consistent with this conjecture; titles with a higher share of sales coming from the DVD format sell fewer copies on average. The quantile regression estimates reveal that the coefficient is negative in the lower quantiles, but turns positive in the 90<sup>th</sup> and 95<sup>th</sup> quantile, only to dip back into a negative coefficient again in the 99<sup>th</sup> quantile, although with a confidence band that includes zero. This is in line with the intuition behind the above-discussed results: lower sales levels for DVDs in the lower quantiles, and higher sales for VHS videos in the highest quantile.

The regression analyses further provide a number of insights into the role of the other covariates. Most notably, as expected, “Year of Production” has a positive effect on sales throughout the distribution. The effect is strongest in the higher quantiles. Not surprisingly, the tail thus contains slightly older content. Similarly, the number of weeks the title has been available (“Weeks Since Release”) is mostly negatively related to sales, and particularly so in the higher quantiles. This also corresponds to a general decay in the demand for a title over time. Video in

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<sup>11</sup> There are two minor exceptions to this general trend for DVDs. One is the (barely) positive shift from the year 2001 to 2002 in the 40th quantile, the lowest quantile for which the model can be estimated. This suggests that the most obscure titles actually generated higher sales in 2002 than in 2001. The other is the (also barely) positive estimate for the sum of “Year” and “DVD x Year,” in the highest quantiles for 2001 (the 90th quantile and higher) and 2002 (the 99th quantile only). This suggests that compared with 2000, DVDs had higher—not lower—sales levels in 2001 and 2002 in the higher quantiles. However, these exceptions notwithstanding, DVDs have generated lower sales overall since 2003.

certain genres that are typically associated with more niche content, like “Foreign” titles, documentaries (as discussed above), and “Adult” titles indeed generate relatively low sales across the range of titles (the coefficients for these variables are negative across all quantiles), and they do generate higher sales among the more obscure titles in the lower quantiles (the coefficients are higher the lower the quantile). However, titles in the “Children” and “Family” genre generate relatively high sales in the higher quantiles (where coefficients are positive), but relatively low sales in the lower quantiles (where coefficients are negative). Also usually associated with niche content, foreign-language titles (“Original Language: Non-English” or “Subtitled”) have a relatively strong negative impact on sales in the head. Relative to unrated content, all mainstream ratings (“G,” “PG,” “PG13,” and “R”) have a positive impact on sales, and typically more so in the higher quantiles, while the “adults only” rating “X” is associated with lower sales (with one exception, for the 40<sup>th</sup> quantile), particularly in the higher quantiles of the distribution. Relative to smaller, independent studios, all distributors included in the study have a positive impact on sales across the distribution, but particularly in the higher quantiles. Among all competing studios, Twentieth Century Fox (“Fox”) appears to have had the most successful portfolio of titles, while “Lions Gate” and, to a lesser extent, “Sony” have relatively low sales.

### **Negative Binomial Regression Models**

Our analyses of the number of titles that meet a particular weekly sales level are presented in Table 5. The five columns correspond to different levels of sales, starting with zero sales, sales below the 70<sup>th</sup>, between the 70<sup>th</sup> and 80<sup>th</sup>, between the 80<sup>th</sup> and 90<sup>th</sup>, and above 90<sup>th</sup> quantile, respectively. To facilitate the interpretation of the results, we transform the estimated coefficients and report incidence rate ratios ( $\exp(\beta)$  instead of  $\beta$ ). These ratios directly show the factor by which the number of titles changes. For example, an estimate of 2 indicates the number of titles doubles, and estimate of 0.5 implies there were only half as many titles reaching a particular sales threshold.

--- Table 5 ---

Table 5a provides results for a basic model that considers sales across all channels and includes year indicators, the percentage of DVD titles and the fraction of titles in a certain genre and with a certain rating as covariates. The coefficients imply an increase in the number of lower-selling titles for DVDs but also—and more pronounced—a rise in the number of titles with zero sales. As indicated by the estimate of 1.540 reported in the first column of the table, compared to the year 2000, the omitted year, the predicted number of titles with zero sales is over 1.5 times larger in 2001. Similarly, based on the coefficient of 4.610 reported in the first column, it appears that, in 2005, the number of non-selling titles is nearly four times as high as in 2000. There is also clear evidence of a longer tail. The number of titles selling fewer than 10 copies per week steadily increases over time. By 2005, it is 1.8 times as large as in 2000.

The 90<sup>th</sup> quantile with titles with weekly sales higher than 125 units hardly qualifies as the “head” of the distribution only—several titles in the sample have weekly sales of over one million units early in their lifecycles—but can be considered as representing both the middle and head. The results for this group, reported in the rightmost column, show that the expected number of titles with weekly sales in the highest decile has decreased in recent years, indicating that the market has become more concentrated. For example, in 2005, compared with 2000, the expected number of titles with weekly sales in the highest decile has declined by over 50%. This evidence complements the quantile regression models in important ways. Whereas the quantile regressions showed a sales decline that was particularly steep at the top end of the market, we now see that the reduced revenues are achieved by only half as many titles. This change is consistent with a superstar effect.

Table 5a captures a core result of this study. Are there important superstar and long-tail effects in U.S. home video sales? The answers turn out to be of the “yes, but...” variety. Yes, there is a long-tail effect in that the number of titles that sell only a few copies every week increases during

our study period. But at the same time, the number of non-selling titles also increases substantially; it is now four times as high as in 2000. Many long-tail “underdogs” turn out to be losers. We also find evidence of a superstar effect. Among the best-performing titles, it is an ever-smaller number of films that accounts for the bulk of sales. The caveat here is that today’s superstars lack the punch of earlier years. Video sales generally decrease over time across all quantiles of the sales distribution, but this effect is most pronounced among best-selling titles.

There can be many reasons why a longer tail emerges during our study period. Perhaps studios adjusted their marketing to prolong the life of titles, released more titles targeted at niche audiences, or benefited from recommendation engines that drove audiences to obscure titles. While changes such as these are hard to measure, we can easily observe one studio decision: the number of titles that are released. Table 5b controls for this variable. The newly added variable is positive throughout and statistically significant at a 1% level in the zero-sales category as well as the 80<sup>th</sup> and 90<sup>th</sup> deciles, but the estimates are very close to 1, indicating there is little economic significance to the number of titles that are on offer.

Nevertheless, controlling for the supply of titles has some impact on the size of the other coefficients in our model. Specifically, accounting for the number of titles available in a given week again reduces the size of the shift toward the tail with low-selling or not selling titles. At the same time, the higher level of concentration in the 90<sup>th</sup> quantile becomes even more apparent. We conclude that the observed long-tail and superstar effects are only in part due to studios’ supply decisions. What we observe, we deduce, is the result of changing consumer decisions as online retailing offers greater variety and lower transaction and search costs.

## CONCLUSION

By examining whether the proliferation of online channels goes hand in hand with a shift in the distribution of sales across products, our study addresses an important debate. We find that online retailing indeed appears to have affected the sales distributions in our study period. In video sales generated over the years from 2000 to 2005, we observe a shift towards the tail of the distribution. In line with the core premise of lower transaction and search costs in online channels, the shift toward the tail becomes somewhat more pronounced in more recent years, and is stronger for DVD titles compared with VHS titles. The shift cannot be fully explained by the changing composition of the user base for DVD versus VHS formats, the number of titles available, as well as characteristics of those titles, such as genres and ratings, which could all be alternative explanations for the observed shift toward the tail.

At the same time, there is some indication in our data that the popularity of niche titles has gone hand in hand with a significant concentration of success on ever fewer items. Video sales decline across all quantiles of the sales distribution, but the drop is much larger among best-selling titles. While hits as a category generate fewer sales, the role of individual bestsellers is growing over time. From 2000 to 2005, the number of titles in the top 10% of sales drops by more than 50%, an increase in concentration common in winner-take-all markets.

As a whole, our findings thus point to significant business challenges for entertainment companies. At the top end of the distribution, most hits draw smaller audiences, a trend that is particularly worrisome given the economic importance of video sales. At the tail end, we find that there is a rapidly increasing number of titles that never, or very rarely, sell—the long tail appears incredibly flat. The sharp increase in the number of titles that have come onto the market in recent years contributes little to this phenomenon.



With limited space on store shelves, producers traditionally have been very discriminating about what they release, and have focused their marketing resources on a small number of likely hits. Are significant changes warranted in how they manage their assortments? In light of our findings, making radical alterations in resource allocation strategies does not seem advisable. In fact, perhaps above all, our findings imply that it is difficult for content providers to profit from the tail. It is not clear whether the new media environment, as long-tail-theory proponents argue, indeed makes previously unprofitable niche products profitable (Anderson 2006). While the rise of online channels lowers the barriers to market entry for such products, and thus introduces the possibility of some sales, the same phenomenon also likely leads to a flood of products that compete for the attention of consumers. Even if the break-even sales levels for niche titles are low, the intensified competition may make it more difficult, not less, to reach these levels.

For online retailers, shelf space constraints do not matter, but problems may be introduced by the relatively large number of titles that do not, or very rarely, sell. Although the margins of long-tail products may be higher compared with hit products (which often are used as loss leaders), eliminating the costs of making obscure products available may be critical if the company's objective is to profit from the long tail. One promising model is Amazon's Marketplace, where third parties pay the costs involved in communicating the availability of a title, and Amazon itself only incurs costs once a customer actually places an order.

Our study has some limitations. As we only have data on one product category—video sales—we cannot exclude a possible effect of changes in other, related product categories over the course of our study period. One such category is video rentals. However, since extant research has shown the performance of video titles in sales and rental markets to differ substantively—Weinberg (2005), for example, indicates there is virtually no overlap between the top ten rentals of 2002 and the top ten selling videos of 2002 in either the VHS or DVD market—we believe the potential

effect of changes in the rental market (such as the inroads made by online rental firm Netflix) to be minimal. Similarly, although we control for movie attributes that are likely correlated with other possible explanations for what we conclude is the effect of online distribution on sales, we cannot fully exclude that other forces may be at play. It is not unthinkable, for example, that consumers initially replaced some of their favorite VHS tapes with DVDs, and that sales of the latter decreased slightly when those consumers had completed the switch to the new format.

We think an examination of long-tail and superstars phenomena in other product categories, with attention for consumption trends at the level of individual consumers, is one promising future research avenue. In addition, while the companies that currently garner acclaim for their ability to serve both the head and the tail are mostly retailers (with the most celebrated examples being large-scale online firms such as Amazon, Google, Netflix, and Rhapsody), we recommend an examination of how content producers (such as movie studios, record labels, or book publishers) benefit—or suffer—in a fundamental way from the increased online assortments.

**Table 1: Descriptive Statistics: Dummy and Continuous Variables at the Unique Title Level**

Variable	Full Sample N=5,455		VHS N=3,067	DVD N=3,717
	#	%	%	%
Genre: Action	351	0.06	0.07	0.07
Genre: Adult	397	0.07	0.04	0.09
Genre: Children	514	0.09	0.13	0.06
Genre: Comedy	596	0.11	0.11	0.11
Genre: Documentary	471	0.09	0.09	0.08
Genre: Drama	626	0.11	0.13	0.12
Genre: Family	65	0.01	0.01	0.01
Genre: Foreign	435	0.08	0.06	0.10
Genre: Horror	233	0.04	0.03	0.05
Genre: Japanese Animation	321	0.06	0.05	0.06
Genre: Mystery	179	0.03	0.03	0.04
Genre: Science Fiction	151	0.03	0.03	0.02
Rating: G	51	0.01	0.01	0.01
Rating: PG	139	0.03	0.04	0.03
Rating: PG-13	132	0.02	0.04	0.03
Rating: R	573	0.11	0.12	0.13
Rating: NC-17	4	0.00	0.00	0.00
Rating: X	4	0.00	0.00	0.00
Animation: Animated	724	0.13	0.14	0.12
Animation: Live Action	4,510	0.83	0.82	0.85
Animation: Puppets	41	0.01	0.01	0.00
Original Language: Non English	679	0.12	0.10	0.14
Translation: Dubbed	171	0.03	0.04	0.03
Translation: Subtitled	311	0.06	0.05	0.07
Part of Franchise	1,235	0.23	0.25	0.19
Distributor: Disney	217	0.04	0.06	0.04
Distributor: 20 <sup>th</sup> Century Fox	167	0.03	0.04	0.02
Distributor: Paramount	171	0.03	0.04	0.02
Distributor: Sony	306	0.06	0.07	0.07
Distributor: Universal	154	0.03	0.04	0.02
Distributor: Warner Bros.	507	0.09	0.12	0.06
Distributor: Lions Gate	221	0.04	0.05	0.04
Original Release: Theatrical	1,405	0.26	0.31	0.27
Original Release: Direct to Video	3,223	0.59	0.47	0.67
Original Release: Television	1,365	0.25	0.27	0.22
Original Release: Rental Re-Price	47	0.01	0.02	0.00
Video Release: Rental	304	0.06	0.05	0.08
Video Release: Sell-Through	592	0.11	0.14	0.16
Video Release: Catalog	2,045	0.37	0.21	0.54

	Full Sample					
	N	Mean	Median	SD	Min	Max
Year Of Production	4,074	1990.51	1998	18.03	1903	2005
Runtime	5,455	106.94	88	177.3	8.00	6000
Suggested Price	5,455	20.56	19.95	18.48	0.99	499.92

**Table 2a: The Distribution of Weekly Sales by Year (N=1,212,863)**

% of Titles	% of Sales											
	VHS (N = 727,729)						DVD (N = 485,134)					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
20	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.02	0.01	0.01	0.00	0.00
30	0.02	0.00	0.00	0.00	0.00	0.00	0.14	0.11	0.06	0.07	0.05	0.02
40	0.10	0.02	0.00	0.00	0.00	0.00	0.40	0.32	0.19	0.21	0.16	0.10
50	0.24	0.11	0.03	0.01	0.00	0.00	0.93	0.80	0.49	0.48	0.41	0.30
60	0.53	0.32	0.14	0.12	0.01	0.00	1.99	1.82	1.10	1.02	0.91	0.69
70	1.18	0.82	0.40	0.53	0.12	0.00	4.01	4.03	2.34	2.08	1.93	1.52
80	2.68	2.20	1.20	1.56	0.82	0.11	7.81	8.78	5.01	4.43	4.24	3.40
90	7.79	7.31	4.03	5.11	3.37	2.17	15.89	19.46	11.21	10.44	10.99	9.29
95	17.71	18.99	9.91	12.79	9.33	7.72	25.15	31.69	19.13	19.44	21.49	19.41
99	49.62	53.92	34.68	44.24	33.79	33.39	45.57	56.92	40.19	44.25	51.38	49.06

**Table 2b: The Number of Titles in Weekly Sales Quantiles by Year**

Level of Sales	Number of Titles					
	2000	2001	2002	2003	2004	- 08/2005
<b>All Formats (N = 1,212,863)</b>						
Weekly sales = 0	547	946	1446	1959	2749	3474
Weekly sales >0	1576	1799	2154	2776	2841	2973
Q <sub>0.50</sub> : weekly sales >1 (0)	1312	1488	1779	2272	2264	2973
Q <sub>0.75</sub> : weekly sales >14 (6)	674	766	948	1059	1057	1572
Q <sub>0.90</sub> : weekly sales > 87 (44)	257	329	390	412	401	634
Q <sub>0.95</sub> : weekly sales > 241 (142)	130	168	186	199	199	321
Q <sub>0.99</sub> : weekly sales > 1478 (1174)	29	32	36	36	36	62
% of titles with non-zero sales	74.2%	65.5%	59.8%	58.6%	50.8%	46.1%
<b>VHS (N = 727,729)</b>						
Weekly sales = 0	480	818	1214	1601	2138	2497
Q <sub>0.50</sub> : weekly sales >0 (0)	1198	1216	1200	1189	828	538
Q <sub>0.75</sub> : weekly sales > 5 (0)	680	651	611	508	289	283
Q <sub>0.90</sub> : weekly sales > 36 (2)	288	291	251	194	112	136
Q <sub>0.95</sub> : weekly sales > 127 (11)	154	148	121	100	45	29
Q <sub>0.99</sub> : weekly sales > 1104 (108)	32	32	27	15	3	2
<b>DVD (N = 485,134)</b>						
Weekly sales = 0	68	126	225	356	635	976
Weekly sales >0	374	593	992	1569	1990	2402
Q <sub>0.50</sub> : weekly sales >7 (3)	246	384	654	952	1110	1675
Q <sub>0.75</sub> : weekly sales >42 (21)	120	211	348	468	522	847
Q <sub>0.90</sub> : weekly sales > 174 (114)	44	84	135	176	210	341
Q <sub>0.95</sub> : weekly sales > 416 (331)	18	38	65	88	108	170
Q <sub>0.99</sub> : weekly sales > 2196 (2148)	3	5	10	19	20	32

Notes: Any version of a release is counted as a separate product. We report the median number of titles that exceed specific sales numbers. Sales quantiles are based on weekly sales for the 2000 to 2004 period. Sales quantiles for 2005, a year in which we observe sales only through August, are reported in parentheses.

**Table 3: Descriptive Statistics for the Distributions**

Measure	Definition	2000	2001	2002	2003	2004	- 08/2005
<b>Full Sample (N=1,212,863)</b>							
Location	$Q_{0.5}$	4.00	2.00	2.00	1.00	1.00	0.00
Scale	$(Q_{0.75}-Q_{0.25})/(Q_{0.75}+Q_{0.25})$	0.93	1.00	1.00	1.00	1.00	1.00
Skewness	$(Q_{0.75}+Q_{0.25}-2Q_{0.5})/(Q_{0.75}-Q_{0.25})$	0.76	0.80	0.76	0.83	0.75	1.00
Kurtosis	$(Q_{0.90}-Q_{0.10})/(Q_{0.75}-Q_{0.25})$	5.56	6.10	5.94	6.42	6.88	7.33
Inter-quartile	$Q_{0.75}-Q_{0.25}$	25.00	20.00	17.00	12.00	8.00	6.00
- Left tail	$(Q_{0.50}-Q_{0.25}) / Q_{0.50}$	0.75	1.00	1.00	1.00	1.00	--
- Right tail	$(Q_{0.75}-Q_{0.50}) / Q_{0.50}$	5.50	9.00	7.50	11.00	7.00	--
<b>VHS (N=727,729)</b>							
Location	$Q_{0.5}$	3.00	1.00	1.00	0.00	0.00	0.00
Scale	$(Q_{0.75}-Q_{0.25})/(Q_{0.75}+Q_{0.25})$	1.00	1.00	1.00	1.00	1.00	--
Skewness	$(Q_{0.75}+Q_{0.25}-2Q_{0.5})/(Q_{0.75}-Q_{0.25})$	0.68	0.82	0.67	1.00	1.00	--
Kurtosis	$(Q_{0.90}-Q_{0.10})/(Q_{0.75}-Q_{0.25})$	6.21	6.82	7.00	6.33	6.00	--
Inter-quartile	$Q_{0.75}-Q_{0.25}$	19.00	11.00	6.00	3.00	1.00	0.00
- Left tail	$(Q_{0.50}-Q_{0.25}) / Q_{0.50}$	1.00	1.00	1.00	--	--	--
- Right tail	$(Q_{0.75}-Q_{0.50}) / Q_{0.50}$	5.33	10.00	5.00	--	--	--
<b>DVD (N=485,134)</b>							
Location	$Q_{0.5}$	11.00	10.00	11.00	8.00	5.00	3.00
Scale	$(Q_{0.75}-Q_{0.25})/(Q_{0.75}+Q_{0.25})$	0.94	0.97	0.97	0.95	0.93	1.00
Skewness	$(Q_{0.75}+Q_{0.25}-2Q_{0.5})/(Q_{0.75}-Q_{0.25})$	0.69	0.72	0.66	0.66	0.71	0.71
Kurtosis	$(Q_{0.90}-Q_{0.10})/(Q_{0.75}-Q_{0.25})$	3.53	3.48	3.60	4.07	4.89	5.43
Inter-quartile	$Q_{0.75}-Q_{0.25}$	58.00	64.00	58.00	41.00	28.00	21.00
- Left tail	$(Q_{0.50}-Q_{0.25}) / Q_{0.50}$	0.82	0.90	0.91	0.88	0.80	1.00
- Right tail	$(Q_{0.75}-Q_{0.50}) / Q_{0.50}$	4.45	5.50	4.36	4.25	4.80	6.00

Notes: The table reports various descriptive statistics—location, scale, skewness, kurtosis, and inter-quartile statistics—for the sales distributions for the full sample, for VHS sales only, and for DVD sales only, for each year of the study period. The measures are defined in the second column.

Table 4a: Quantile Regression Analysis—Common Year Effects for DVD and VHS Titles

	log Sales (OLS)	log Sales Q40	log Sales Q50	log Sales Q60	log Sales Q70	log Sales Q80	log Sales Q90	log Sales Q95	log Sales Q99
Fraction of Sales on DVD	-0.000 (0.000)**	-0.002 (0.000)**	-0.002 (0.000)**	-0.001 (0.000)**	-0.001 (0.000)**	-0.000 (0.000)	0.002 (0.000)**	0.003 (0.000)**	0.002 (0.000)**
DVD	1.401 (0.006)**	1.227 (0.002)**	1.633 (0.004)**	1.856 (0.016)**	1.967 (0.027)**	2.007 (0.030)**	1.833 (0.027)**	1.718 (0.011)**	1.483 (0.027)**
Year 2001	-0.353 (0.010)**	-0.231 (0.037)**	-0.488 (0.019)**	-0.535 (0.009)**	-0.520 (0.008)**	-0.501 (0.020)**	-0.593 (0.030)**	-0.627 (0.032)**	-0.803 (0.020)**
Year 2002	-0.602 (0.010)**	-0.269 (0.041)**	-0.611 (0.028)**	-0.821 (0.037)**	-0.973 (0.020)**	-1.072 (0.031)**	-1.189 (0.048)**	-1.273 (0.045)**	-1.414 (0.008)**
Year 2003	-0.843 (0.009)**	-0.305 (0.042)**	-0.692 (0.029)**	-0.968 (0.031)**	-1.257 (0.017)**	-1.511 (0.024)**	-1.771 (0.039)**	-1.845 (0.029)**	-1.975 (0.014)**
Year 2004	-1.146 (0.009)**	-0.388 (0.045)**	-0.847 (0.032)**	-1.180 (0.033)**	-1.520 (0.019)**	-1.858 (0.023)**	-2.142 (0.030)**	-2.311 (0.021)**	-2.383 (0.022)**
Year 2005	-1.384 (0.009)**	-0.463 (0.044)**	-0.981 (0.030)**	-1.346 (0.029)**	-1.699 (0.012)**	-2.073 (0.020)**	-2.445 (0.044)**	-2.644 (0.051)**	-2.735 (0.000)**
Genre: Documentary	-0.553 (0.008)**	-0.132 (0.007)**	-0.234 (0.003)**	-0.317 (0.005)**	-0.425 (0.002)**	-0.577 (0.000)**	-0.755 (0.029)**	-1.051 (0.016)**	-1.714 (0.031)**
Year of Production	0.005 (0.000)**	0.000 (0.000)**	0.001 (0.000)**	0.003 (0.000)**	0.005 (0.000)**	0.008 (0.000)**	0.013 (0.000)**	0.015 (0.001)**	0.015 (0.002)**
Original Release: Television	-0.063 (0.008)**	0.006 (0.000)**	-0.015 (0.005)**	-0.052 (0.004)**	-0.153 (0.010)**	-0.288 (0.011)**	-0.341 (0.003)**	-0.331 (0.018)**	-0.034 (0.040)
Constant	-9.040 (0.320)**	-0.481 (0.167)**	-1.927 (0.355)**	-4.214 (0.677)**	-8.108 (0.549)**	-13.248 (0.712)**	-21.477 (0.852)**	-24.785 (0.000)**	-23.281 (3.173)**
Observations	573,753	573,753	573,753	573,753	573,753	573,753	573,753	573,753	573,753
(Pseudo) R-squared	0.310	0.081	0.185	0.235	0.255	0.260	0.255	0.251	0.242

Notes: The first column presents OLS estimates, the remainder of the table reports quantile regression model estimates. One asterisk (\*) indicates significance at 5% and two (\*\*) significance at 1%. All models omit a dummy for “Year 2000,” and include “Month” fixed effects. This table only presents a selected set of covariates; the full model estimates are available upon request.

Table 4b: Quantile Regression Analysis—Year Effects Vary by Format

	log Sales (OLS)	log Sales Q40	log Sales Q50	log Sales Q60	log Sales Q70	log Sales Q80	log Sales Q90	log Sales Q95	log Sales Q99
DVD	0.848 (0.013)**	<b>1.609</b> ( <b>0.017</b> )**	1.482 (0.014)**	<b>1.316</b> ( <b>0.011</b> )**	<b>1.060</b> ( <b>0.034</b> )**	<b>0.703</b> ( <b>0.033</b> )**	<b>0.176</b> ( <b>0.012</b> )**	<b>-0.172</b> ( <b>0.026</b> )**	<b>-0.373</b> ( <b>0.018</b> )**
Year 2001	-0.377 (0.008)**	<b>-0.164</b> ( <b>0.004</b> )**	-0.554 (0.015)**	<b>-0.671</b> ( <b>0.007</b> )**	<b>-0.605</b> ( <b>0.016</b> )**	<b>-0.581</b> ( <b>0.013</b> )**	<b>-0.609</b> ( <b>0.021</b> )**	<b>-0.563</b> ( <b>0.025</b> )**	-0.623 (0.036)**
Year 2002	-0.710 (0.008)**	<b>-0.210</b> ( <b>0.004</b> )**	-0.694 (0.019)**	<b>-1.018</b> ( <b>0.012</b> )**	<b>-1.224</b> ( <b>0.010</b> )**	<b>-1.310</b> ( <b>0.008</b> )**	<b>-1.320</b> ( <b>0.012</b> )**	<b>-1.281</b> ( <b>0.007</b> )**	<b>-1.312</b> ( <b>0.011</b> )**
Year 2003	-1.033 (0.007)**	<b>-0.242</b> ( <b>0.005</b> )**	-0.775 (0.021)**	<b>-1.167</b> ( <b>0.019</b> )**	<b>-1.546</b> ( <b>0.020</b> )**	<b>-1.915</b> ( <b>0.017</b> )**	<b>-2.177</b> ( <b>0.023</b> )**	<b>-2.180</b> ( <b>0.010</b> )**	<b>-2.080</b> ( <b>0.011</b> )**
Year 2004	-1.390 (0.007)**	<b>-0.294</b> ( <b>0.004</b> )**	-0.891 (0.017)**	<b>-1.343</b> ( <b>0.015</b> )**	<b>-1.787</b> ( <b>0.020</b> )**	<b>-2.321</b> ( <b>0.019</b> )**	<b>-2.806</b> ( <b>0.035</b> )**	<b>-2.961</b> ( <b>0.055</b> )**	<b>-2.945</b> ( <b>0.026</b> )**
Year 2005	-1.615 (0.007)**	<b>-0.332</b> ( <b>0.002</b> )**	-0.969 (0.016)**	<b>-1.451</b> ( <b>0.016</b> )**	<b>-1.915</b> ( <b>0.018</b> )**	<b>-2.485</b> ( <b>0.013</b> )**	<b>-3.065</b> ( <b>0.024</b> )**	<b>-3.338</b> ( <b>0.020</b> )**	<b>-3.600</b> ( <b>0.019</b> )**
DVD × 2001	0.256 (0.017)**	<b>-0.034</b> ( <b>0.034</b> )	0.395 (0.019)**	<b>0.559</b> ( <b>0.015</b> )**	<b>0.550</b> ( <b>0.046</b> )**	<b>0.552</b> ( <b>0.042</b> )**	<b>0.710</b> ( <b>0.029</b> )**	<b>0.703</b> ( <b>0.052</b> )**	<b>0.749</b> ( <b>0.012</b> )**
DVD × 2002	0.530 (0.016)**	<b>0.083</b> ( <b>0.022</b> )**	0.532 (0.012)**	<b>0.870</b> ( <b>0.015</b> )**	<b>1.108</b> ( <b>0.047</b> )**	<b>1.217</b> ( <b>0.048</b> )**	<b>1.250</b> ( <b>0.036</b> )**	<b>1.268</b> ( <b>0.050</b> )**	<b>1.351</b> ( <b>0.033</b> )**
DVD × 2003	0.619 (0.015)**	<b>-0.121</b> ( <b>0.021</b> )**	0.352 (0.017)**	<b>0.695</b> ( <b>0.018</b> )**	<b>1.083</b> ( <b>0.046</b> )**	<b>1.436</b> ( <b>0.050</b> )**	<b>1.758</b> ( <b>0.020</b> )**	<b>1.871</b> ( <b>0.015</b> )**	<b>1.968</b> ( <b>0.019</b> )**
DVD × 2004	0.695 (0.014)**	<b>-0.489</b> ( <b>0.014</b> )**	0.066 (0.020)**	<b>0.494</b> ( <b>0.020</b> )**	<b>0.990</b> ( <b>0.037</b> )**	<b>1.599</b> ( <b>0.037</b> )**	<b>2.217</b> ( <b>0.028</b> )**	<b>2.424</b> ( <b>0.066</b> )**	<b>2.700</b> ( <b>0.016</b> )**
DVD × 2005	0.666 (0.015)**	<b>-0.758</b> ( <b>0.042</b> )**	-0.185 (0.000)**	<b>0.305</b> ( <b>0.000</b> )**	<b>0.825</b> ( <b>0.028</b> )**	<b>1.495</b> ( <b>0.025</b> )**	<b>2.161</b> ( <b>0.026</b> )**	<b>2.511</b> ( <b>0.051</b> )**	<b>3.087</b> ( <b>0.023</b> )**
Observations	1,161,405	1,161,405	1,161,405	1,161,405	1,161,405	1,161,405	1,161,405	1,161,405	1,161,405
(Pseudo) R-squared	0.323	0.091	0.193	0.241	0.261	0.270	0.274	0.277	0.270

Notes: The first column presents OLS estimates, the remainder of the table reports quantile regression model estimates. One asterisk (\*) indicates significance at 5% and two (\*\*) significance at 1%. All models omit a dummy for “Year 2000,” and include “Month” fixed effects. For the OLS model, we can reject all null hypotheses,  $H_0: \text{Year} + (\text{DVD} \times \text{Year}) = 0$ , with  $p < 0.000$ . We also estimate a full set of inter-quantile regressions, comparing the coefficients in each column with the coefficients for Q<sub>50</sub>; coefficients that are significantly different are printed bold. This table only presents a selected set of covariates; the full model estimates are available upon request.

Table 5a: Negative Binomial Regression Model for the Number of Titles in Sales Quantiles

	(1) # titles with sales=0	(2) # titles with 0<sales≤10	(3) # titles with 10<sales≤28	(4) # titles with 28<sales≤125	(5) # titles with sales>125
Year 2001	<b>1.540</b> <b>(0.088)**</b>	<b>1.125</b> <b>(0.043)**</b>	0.973 (0.057)	1.051 (0.060)	<b>0.852</b> <b>(0.054)*</b>
Year 2002	<b>1.887</b> <b>(0.228)**</b>	<b>1.245</b> <b>(0.100)**</b>	0.998 (0.123)	<b>1.269</b> <b>(0.152)*</b>	0.776 (0.105)
Year 2003	<b>2.345</b> <b>(0.410)**</b>	<b>1.482</b> <b>(0.172)**</b>	1.052 (0.187)	<b>1.406</b> <b>(0.243)*</b>	0.687 (0.134)
Year 2004	<b>3.294</b> <b>(0.786)**</b>	<b>1.629</b> <b>(0.258)**</b>	1.114 (0.271)	<b>1.614</b> <b>(0.381)*</b>	<b>0.576</b> <b>(0.153)*</b>
Year 2005	<b>4.610</b> <b>(1.383)**</b>	<b>1.816</b> <b>(0.362)**</b>	1.231 (0.376)	<b>1.789</b> <b>(0.530)*</b>	<b>0.494</b> <b>(0.166)*</b>
% Titles on DVD	1.010 (0.007)	0.993 (0.004)	1.013 (0.007)	1.008 (0.007)	<b>1.019</b> <b>(0.008)*</b>
% Action	<b>1.499</b> <b>(0.115)**</b>	0.981 (0.049)	1.026 (0.081)	0.971 (0.075)	<b>0.771</b> <b>(0.063)**</b>
% Adult	<b>1.046</b> <b>(0.016)**</b>	<b>1.037</b> <b>(0.010)**</b>	<b>1.075</b> <b>(0.017)**</b>	<b>1.051</b> <b>(0.015)**</b>	1.011 (0.016)
% Children	<b>1.721</b> <b>(0.063)**</b>	<b>0.954</b> <b>(0.019)*</b>	1.047 (0.033)	1.057 (0.033)	<b>1.087</b> <b>(0.037)*</b>
% Comedy	<b>1.181</b> <b>(0.043)**</b>	<b>0.952</b> <b>(0.023)*</b>	1.004 (0.038)	0.980 (0.036)	<b>1.091</b> <b>(0.043)*</b>
% Documentary	<b>1.075</b> <b>(0.037)*</b>	0.961 (0.023)	<b>0.892</b> <b>(0.033)**</b>	1.072 (0.038)	1.042 (0.041)
% Drama	1.016 (0.051)	0.974 (0.032)	1.015 (0.051)	0.930 (0.046)	0.947 (0.052)
% Foreign	<b>1.114</b> <b>(0.041)**</b>	<b>1.088</b> <b>(0.026)**</b>	1.005 (0.036)	0.988 (0.035)	1.051 (0.043)
% Rating G	0.897 (0.115)	1.017 (0.086)	0.790 (0.105)	1.018 (0.132)	0.969 (0.135)
% Rating PG13	<b>0.766</b> <b>(0.101)*</b>	1.026 (0.089)	0.810 (0.109)	<b>1.498</b> <b>(0.195)**</b>	1.218 (0.175)
% Rating X	2.334 (1.304)	1.012 (0.378)	<b>6.883</b> <b>(4.075)**</b>	<b>7.803</b> <b>(4.519)**</b>	0.628 (0.390)
Observations	296	296	296	296	296

Notes: The reported coefficients are incidence rate ratios. The dependent variable is the number of titles that meet a particular weekly sales target. The independent variables include month indicators (which are not reported in the table). The reported sales thresholds of 10, 28 and 125 copies per week correspond to the 70<sup>th</sup>, 80<sup>th</sup>, and 90<sup>th</sup> percentile of weekly sales. Standard errors are in parentheses. One asterisk (\*) indicates significance at 5% and two (\*\*) significance at 1% (the latter values are also in bold font).



**Table 5b: Negative Binomial Regression Model for the Number of Titles in Sales Quantiles**

	(1) # titles with sales=0	(2) # titles with 0<sales≤10	(3) # titles with 10<sales≤28	(4) # titles with 28<sales≤125	(5) # titles with sales>125
Year 2001	<b>1.357</b> <b>(0.088)**</b>	<b>1.098</b> <b>(0.047)*</b>	0.926 (0.061)	0.936 (0.060)	<b>0.794</b> <b>(0.056)**</b>
Year 2002	<b>1.384</b> <b>(0.198)*</b>	1.174 (0.110)	0.884 (0.128)	0.957 (0.135)	<b>0.656</b> <b>(0.101)**</b>
Year 2003	1.462 (0.307)	<b>1.356</b> <b>(0.186)*</b>	0.876 (0.186)	0.917 (0.189)	<b>0.532</b> <b>(0.120)**</b>
Year 2004	<b>1.759</b> <b>(0.500)*</b>	<b>1.447</b> <b>(0.269)*</b>	0.874 (0.251)	0.914 (0.256)	<b>0.410</b> <b>(0.126)**</b>
Year 2005	2.019 (0.731)	1.553 (0.368)	0.894 (0.327)	0.846 (0.301)	<b>0.314</b> <b>(0.123)**</b>
% Titles on DVD	0.996 (0.007)	<b>0.990</b> <b>(0.005)*</b>	1.007 (0.008)	0.996 (0.007)	1.010 (0.008)
% Action	<b>1.516</b> <b>(0.115)**</b>	0.984 (0.049)	1.033 (0.081)	0.985 (0.076)	<b>0.774</b> <b>(0.063)**</b>
% Adult	<b>1.048</b> <b>(0.015)**</b>	<b>1.037</b> <b>(0.010)**</b>	<b>1.076</b> <b>(0.017)**</b>	<b>1.055</b> <b>(0.015)**</b>	1.012 (0.016)
% Children	<b>1.668</b> <b>(0.061)**</b>	<b>0.946</b> <b>(0.020)**</b>	1.029 (0.034)	1.018 (0.033)	1.060 (0.038)
% Comedy	<b>1.212</b> <b>(0.044)**</b>	0.958 (0.023)	1.015 (0.039)	1.007 (0.037)	<b>1.109</b> <b>(0.044)*</b>
% Documentary	<b>1.174</b> <b>(0.048)**</b>	0.978 (0.027)	0.924 (0.040)	<b>1.164</b> <b>(0.048)**</b>	<b>1.096</b> <b>(0.050)*</b>
% Drama	1.044 (0.052)	0.979 (0.032)	1.025 (0.052)	0.953 (0.047)	0.963 (0.053)
% Foreign	1.043 (0.041)	<b>1.073</b> <b>(0.028)**</b>	0.979 (0.039)	0.929 (0.036)	1.009 (0.045)
% Rating G	0.908 (0.115)	1.018 (0.086)	0.791 (0.105)	1.028 (0.133)	0.976 (0.135)
% Rating PG13	0.857 (0.114)	1.052 (0.093)	0.851 (0.118)	<b>1.675</b> <b>(0.224)**</b>	1.307 (0.192)
% Rating X	1.815 (1.009)	0.965 (0.361)	<b>6.294</b> <b>(3.743)**</b>	<b>6.228</b> <b>(3.627)**</b>	0.535 (0.332)
# of Titles Offered	<b>1.000</b> <b>(0.000)**</b>	1.000 (0.000)	1.000 (0.000)	<b>1.000</b> <b>(0.000)**</b>	<b>1.000</b> <b>(0.000)*</b>
Observations	296	296	296	296	296

Notes: The reported coefficients are incidence rate ratios. The dependent variable is the number of titles that meet a particular weekly sales target. The independent variables include month indicators (which are not reported in the table). The reported sales thresholds of 10, 28 and 125 copies per week correspond to the 70<sup>th</sup>, 80<sup>th</sup>, and 90<sup>th</sup> percentile of weekly sales. Standard errors are in parentheses. One asterisk (\*) indicates significance at 5% and two (\*\*) significance at 1% (the latter values are also in bold font).

Figure 1: A Long-Tail versus Superstars Effect

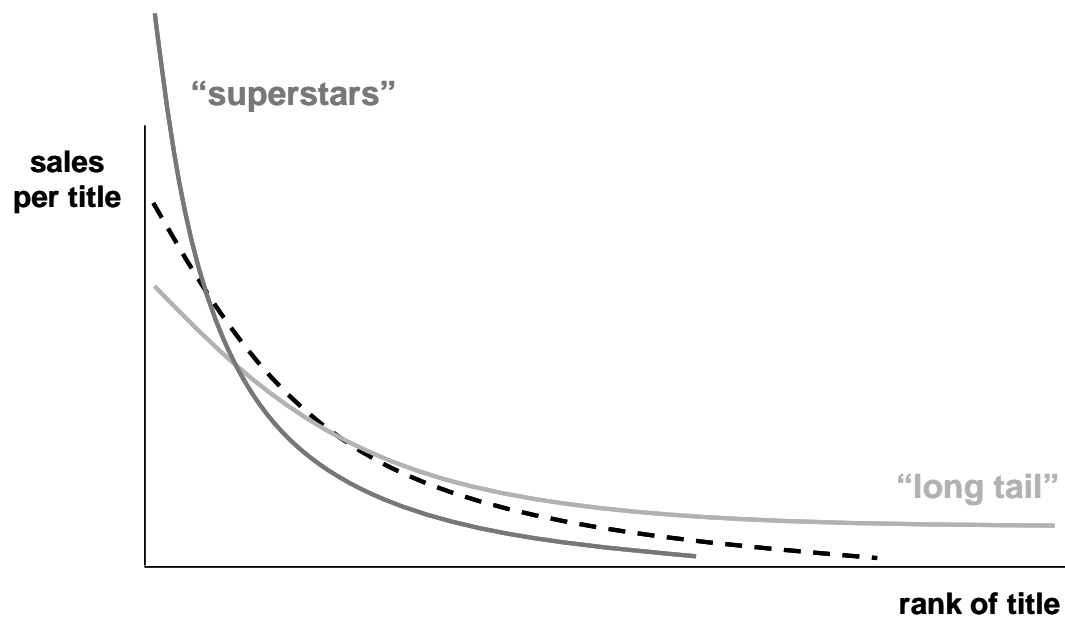
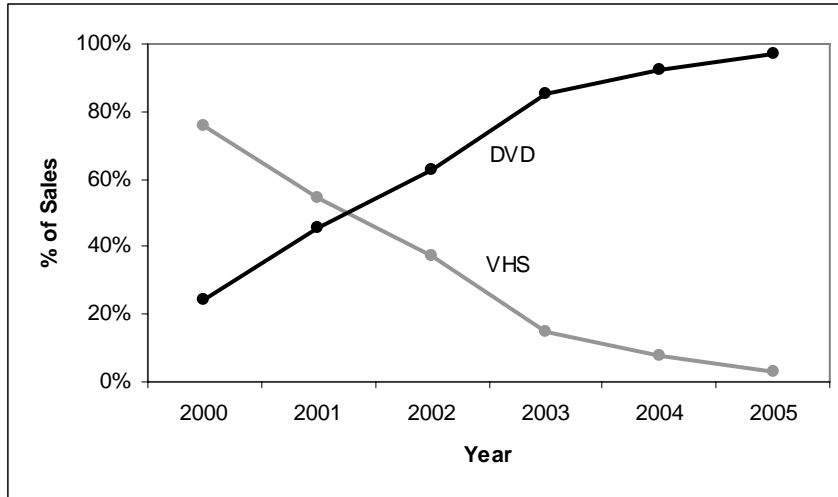


Figure 2: Annual Sales by Format, and Annual Sales by Channel

Video Sales By Year By Format



Video Sales By Year By Channel

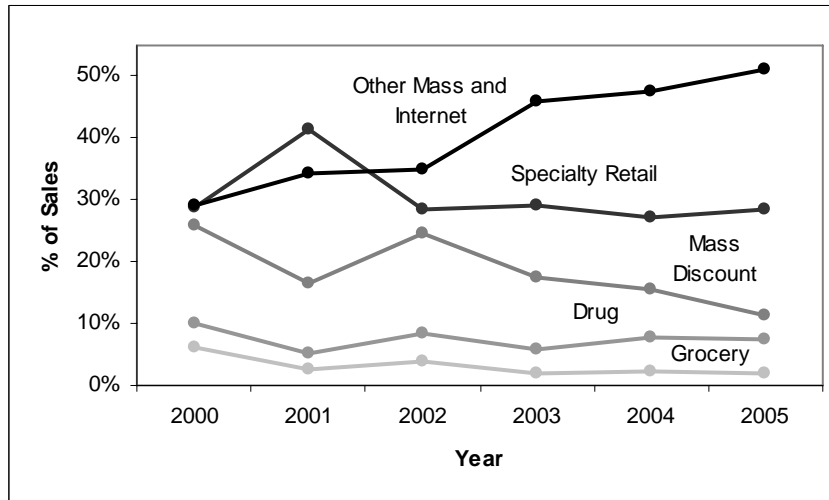


Figure 3: Quantile Plots for Some Key Covariates

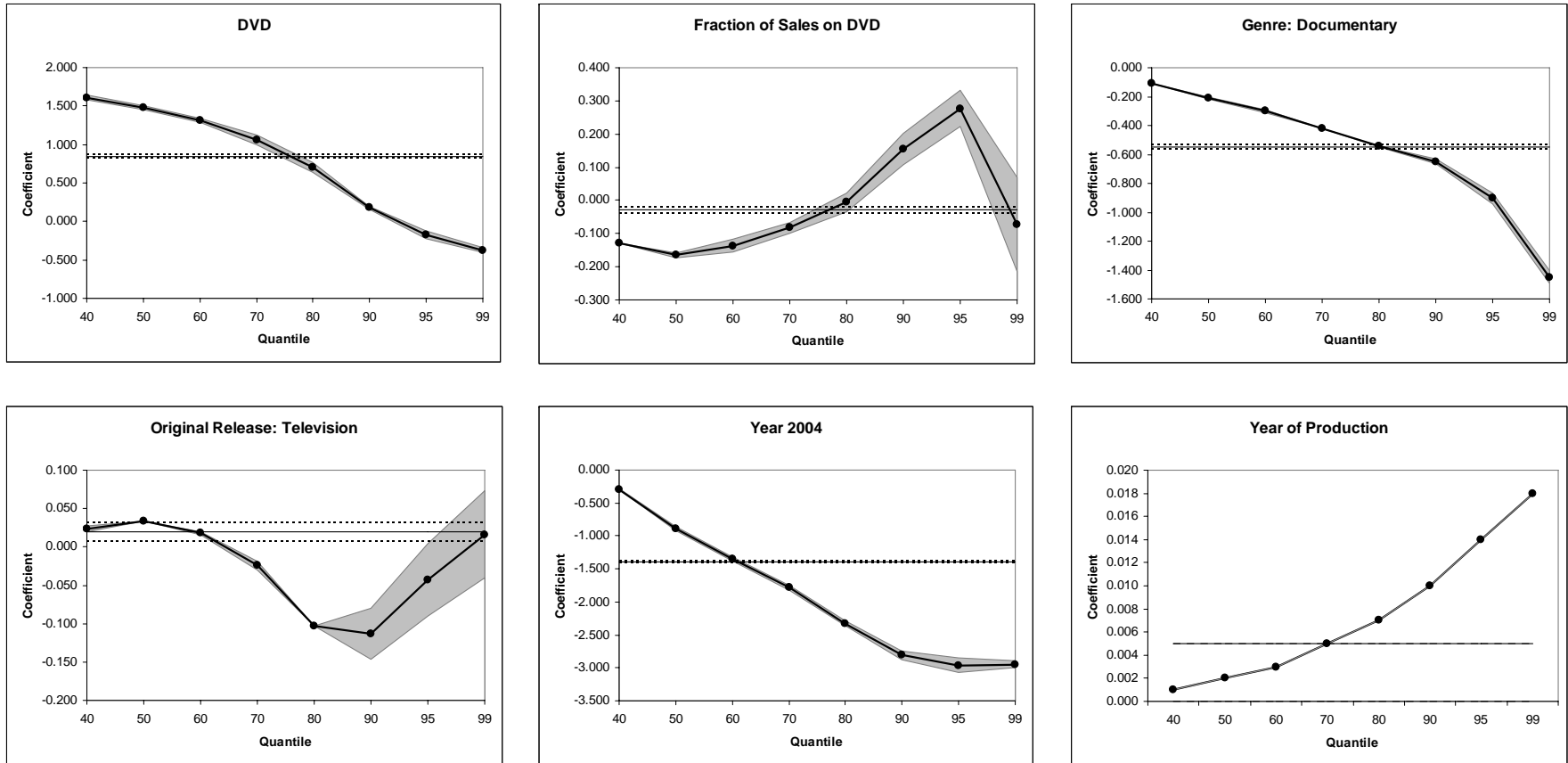
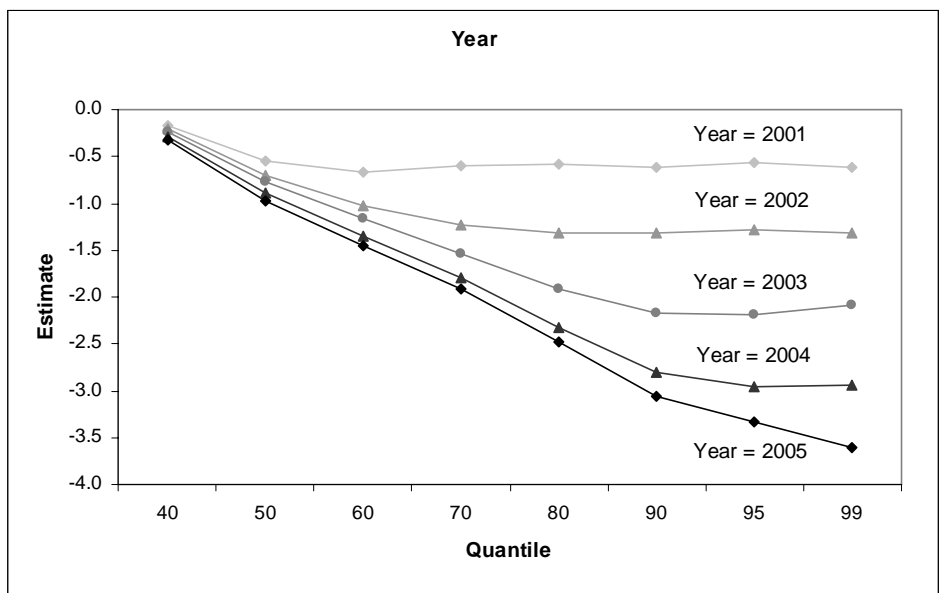
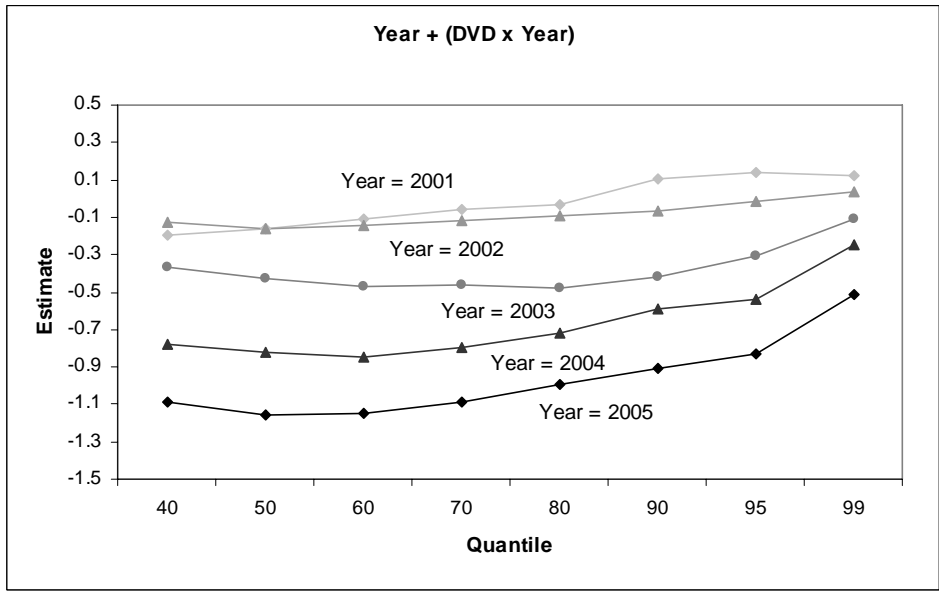


Figure 4: The Time Trend for DVD and VHS, By Quantile

VHS: The Estimate for "Year" By Quantile



DVD: The Estimate of "Year + (DVD x Year) By Quantile



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