

The World Gone Digital

Insights from McKinsey's Global iConsumer Research



An ever-expanding array of digital devices and platforms is changing the way we communicate, socialize, play, purchase and discover. This evolution of consumers' digital behavior has wide-ranging impact beyond technology, communications and media, with the potential to change how products and services are developed and delivered in the retail, financial services, and healthcare sectors.

To understand evolving consumer digital behaviors, McKinsey launched a unique research effort in 2008 which we call iConsumer (see sidebar). Our goal was to develop a detailed picture of consumer digital behavior and attitudes, identifying needs and usage trends, as well as pain points and barriers to adoption. The research is product agnostic, designed to capture the full range of consumer digital devices and services. Our iConsumer analytics can help companies glean new consumer insights across geographies, including new brand-level and product-level perspectives on consumer usage, purchasing criteria and attitudes.

This article is the first in a series to be based upon the iConsumer effort, and focuses on two topics among the U.S. online population. First, we suggest a segmentation of digital consumers to help companies understand the different groups that use their products—and how distinct their needs are. Second, we identify five significant shifts in behavior and consumption patterns of digital media and telecom services that could significantly disrupt operating models and strategies as consumers change the platforms, products and services they use to manage their increasingly digital personal and professional lives.

What and Why of iConsumer Research Initiative

Our global research delves into the digital lives of consumers— how they use devices and platforms, and how they make decisions about which to use when. By the end of 2010 we had surveyed more than 100,000 consumers across North America, Europe, India and China. These consumers ranged from 13 to 64+ years of age and are weighted to reflect the general online population in North America and Europe while in India and China we also accounted for offline users. We asked respondents to answer 400 questions that cover how they conduct a range of activities, from core communications like e-mailing or socializing, to consumption of major types of content (video, audio, games, etc.) to commerce and creative applications. We stratified our sample across topic categories among the 400 questions in order to ensure full topic coverage while maintaining response quality. The self-reported nature of the consumer data in our research means that it can diverge from directly observed behaviors.

In 2011 we expanded the iConsumer research to Japan and South Korea and are in the process of launching full-scale research throughout Latin America.



A Multiplicity of Consumers Yields Complex Segmentation—and Many Opportunities

It is human nature to crave simple answers, bright lines and black-and-white contrasts. Yet, when it comes to digital behavior, those categorizations are not possible or wise. We found a diversity and fluidity of consumer behavior that was far more nuanced than expected. By applying a cluster analysis accounting for behaviors and attitudes across the full range of media and technology experiences, we identified seven distinct groups (see Figure 1) that vary both in the types of digital experiences they enjoy and the intensity with which they enjoy them.

Two segments show strong adoption of digital technologies across media and communication experiences. The *Digital Media Junkies* are extensive users of all things digital (video, music, etc.) across devices, while the *Digital Communicators* are more focused on social networking, texting and email. Both have integrated digital media into many areas of their lives.

Three additional segments have more focused digital experiences. The *Video Digerati* lead in video usage across all platforms (TV, mobile, PC and over-the-top web-enabled viewing). Gamers focus their digital experiences in single- and multi-player gaming experiences, particularly using gaming console platforms. Finally, *Professionals* can buy and avidly use most digital devices but time constraints limit their minutes and type of usage on digital technologies that enhance their ability to communicate and better manage their lives such as such as e-mail or time-shifted video.

There are also two “digital-lite” segments. *On-the-go Workers* lead the way in use of mobile voice, making them the “blue-collar” workers of the digital era, but show more limited adoption of digital technologies and reflect late-adopter attitudes. Finally, the large but low-digital *Traditionalists* have been slow in transitioning to the digital domain and remain focused on traditional modes of behavior such as reading print. The average age for *On-the-go Workers* and *Traditionalists* is 41 and 48, respectively, which is 15-20 years older than the average age of 28 for the *Digital Media Junkies*.



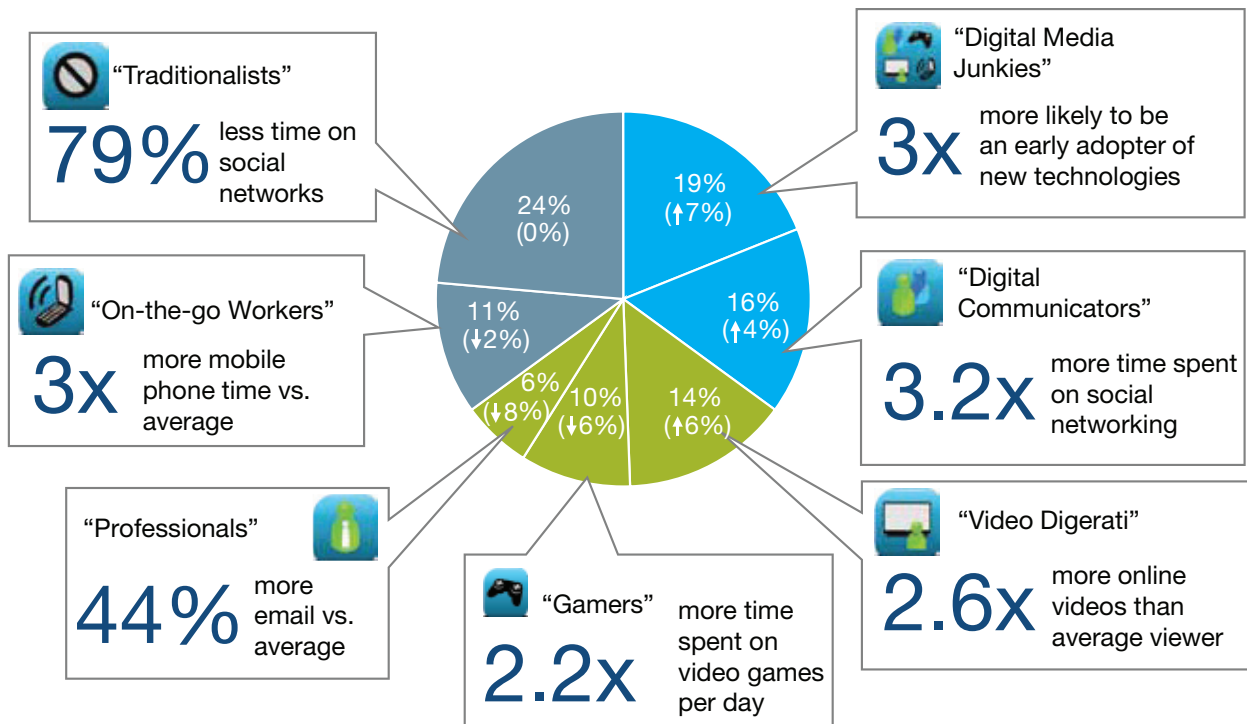
The analytics possible with our iConsumer data can help companies glean new global and geographic consumer insights, and gain new brand-level and at times product-level understanding of consumer usage, purchasing criteria and attitudes.

This segmentation provides a helpful starting point for understanding broad digital trends, yet it will continue to evolve. During the short 2008-10 span we saw significant movement among segments. Broadly, there has been a migration toward the cross-experience digital segments of *Digital Media Junkies* and *Digital Communicators* as well as to the *Video Digerati*. Collectively these three segments have grown by 17 percentage points and represent almost half of the U.S. internet population. We have seen the greatest decline among *Professionals* and *Gamers*, suggesting that for each an initial narrow set of digital experiences served as a gateway to a broader digital lifestyle. *On-the-go Workers* and *Traditionalists* showed slower declines, indicating that the digital transition is still at its early stages among these groups.

Figure 1: One Connected World, with Many iConsumer Segments

Online consumer segments and attributes relative to average respondent

Size of segment, indexed with 2008-2010 absolute percentage change



■ Cross-experience ■ Deep in a single experience ■ Non-digital

Source: 2010 iConsumer survey of US internet users aged 13-64 years; survey was conducted exclusively online

iConsumer 2010 Trend Watch: Shifts Large and Small in Consumer Behavior Reconfigure Digital Strategies

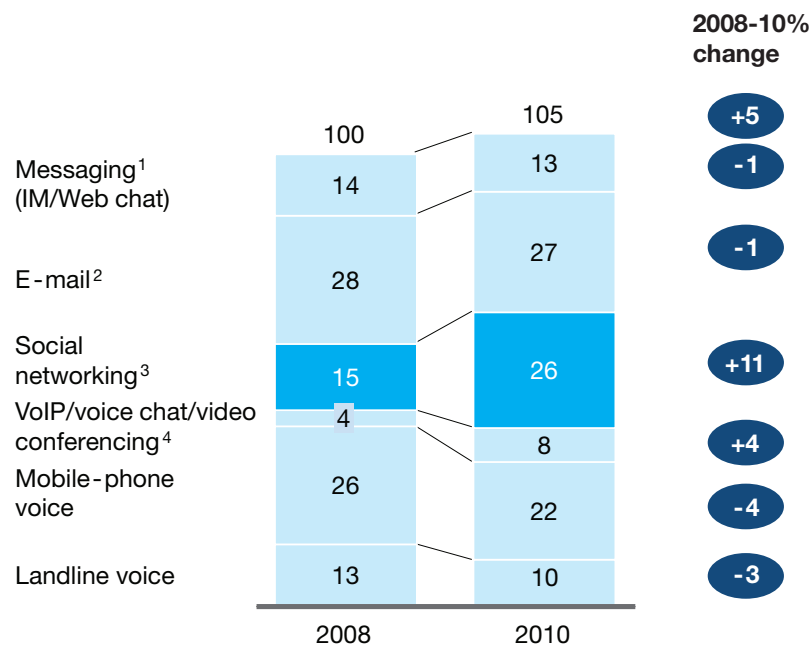
Like changes in the non-digital world, shifts can seem small and even trivial but suddenly take on significance when viewed in aggregate. In synthesizing iConsumer findings, we identified a handful of trends that illustrate and quantify how consumers' habits and preferences are evolving, and why.

1. Social networks are becoming the communications gateway—and a commerce engine. Across most segments and demographics, social networks such as Facebook are becoming a much larger share of member communications portfolios, with online and smartphone penetration intensifying and habitual use of them on all platforms increasing. Social networking is the preferred communication channel for those younger than 34, although the over-55 cohort has doubled in the last two years. The increase of usage means fewer phone calls, texting, e-mailing and use of search engines (see Figure 2). The commercial benefits to companies from a social network can also be enormous. Zynga, the social gaming company, grew to over 65 million daily active users in two years by leveraging Facebook, and the open development platform to Facebook enables any company to embed “social” functionality in their website.

Figure 2: Social Networking is Central to Communication Portfolio

Communication portfolio, 2008-2010

Average minutes of use per day, 2008 index



1 Instant messaging/Web chat on PC, mobile phone and (in 2010 only) tablets

2 Reading/writing e-mail (exclude work related) on PC, mobile phone and (in 2010 only) tablets

3 Browsing social-network Web sites (e.g., Facebook, MySpace) on PC, mobile phone, and (in 2010 only) tablets

4 Talking via VoIP, voice chat, and video chat on PC Source: iConsumer 2008-2010, US 13-64 year-old internet users
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Social networks are also increasingly playing a navigation role that search engines traditionally dominated. While search engines continue as the leading way consumers get to content online, social networks have increasingly grown as an additional pathway (just 13% of online respondents used social networks to get to content online in 2008 versus 33% by 2010). This has obvious and opposite implications for social networking companies and search engines, but also broader implications for all companies. For example, marketers, who have adopted search engine optimization strategies will increasingly need to think about their social network optimization strategies as well.

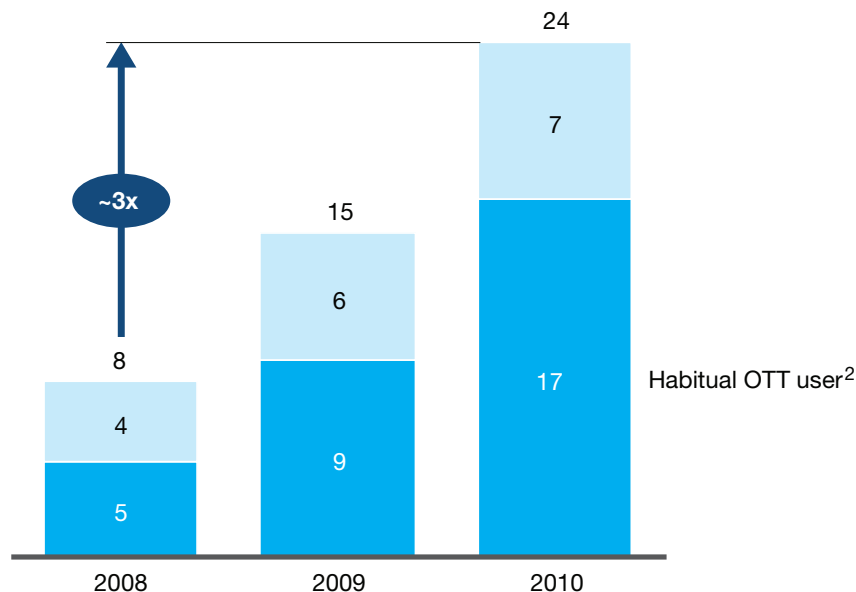
Within the enterprise, social networks show the potential to redefine how employees interact and collaborate to improve productivity. Although less than 20% of companies have adopted social networking applications internally, early signs among those that have show that communication and collaboration pathways are fundamentally changing. Almost 40% of employees at companies that have adopted internal social networks report that their traditional communications are being displaced. Over one-third also now regularly engage in entirely new behaviors such as issuing status updates and following status updates from others.

2. Video is everywhere, potentially disrupting traditional and cable TV. Consumers watch video on PCs, mobile devices, internet connected TVs (over-the-top video or OTT), and on traditional TV. For example, 84% of our *Digital Media Junkies* view some video on their PC, 57% on their smartphones, 44% with OTT devices. Not surprisingly, over the last three years OTT video usage has tripled as game consoles (the device of choice for OTT) became commonplace and sites like Hulu have attracted content and sponsors (see Figure 3).

Figure 3: Time Shifting Video Viewers Include More OTT Users

OTT users¹

Percent of respondents



¹ OTT user = respondents who watch TV in any of the following ways, at least once a month: via PC connected to TV set, internet video box, internet enabled gaming console, DVD player or DVR player, internet enabled TV

² "Habitual OTT users" defined as users who watch once a week or more

Source: iConsumer 2008-2010, US 13-64 year-old internet users

The growth of OTT has generated significant discussion about the possibility of pay TV “cord-cutting” where subscribers to services such as cable or satellite either downgrade or entirely cancel their packages and rely instead on OTT video. It is simply too early to predict accurately how OTT will impact the pay TV industry. The pessimistic case for pay TV finds support in our observation that OTT users are 1.5 times more likely to express an intent to cancel their pay-TV service going forward as compared to non-OTT users. On the other hand, OTT is in its early days and only 24% of OTT users are satisfied with their current experience. Pay TV operators have clearly gotten the message about digital and are aggressively adopting innovations such as authenticated access to broadband, iPad integration and a growing array of video on demand offerings.

While there is certainly a case for OTT as a potential disruptive force in pay TV there is also a compelling case that it may end up being one part of an enhanced pay TV experience. In the same way that the advent of wireless led to greater voice revenues overall, OTT and other digital video technologies promise to make video consumption more relevant and personal, generating a rising tide that potentially lifts industry revenues as a whole. There are also new opportunities for digital intermediaries to provide value-added navigation services now performed by traditional TV-programming packagers. We anticipate that advertisers will also need to refine marketing plans to reflect this new video viewing behavior, and get creative about how they reach users who are time-shifting their viewing among several platforms.

In two years, the number of TV-based habitual OTT users almost tripled, although their satisfaction remains fairly low, at 24%.

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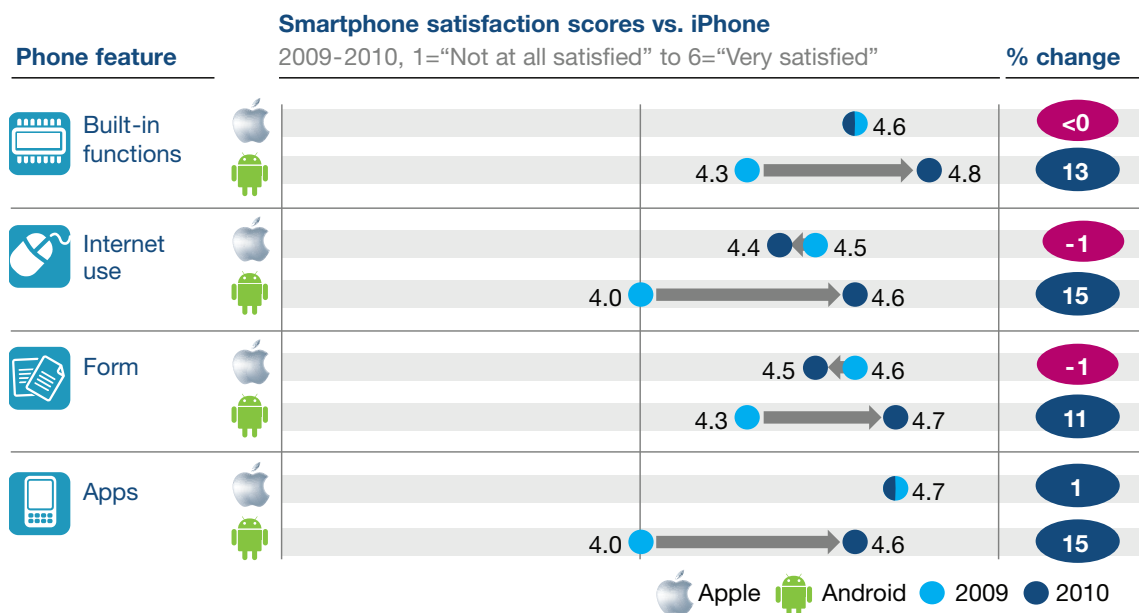
3. Smartphones are the “Swiss Army Knife” of communication and commerce. Smartphones have invaded the domain of single purpose units like gaming devices and portable media players, and are now the clear device of choice for e-mail, web-browsing and targeted product research for many. Indeed, a third of smartphone owners prefer using their phones for Web browsing or email even when they are near PCs. Over the past two years, iPhone users have increased time spent emailing on their smartphone by 45% while reducing time spent emailing on their PCs by 15%.

In addition to changing what they do with their phones, user expectations are rising as their choices of smartphones expand. While the iPhone set the standard, we found that Android users are actually more satisfied with their handsets, call performance and web experience (see Figure 4). Thus the iPhone may have moved from benchmark and gold standard to being “first among equals.” As differences in the hardware experience narrow, we may increasingly see ecosystem-based competition in addition to traditional device-based competition.

Likewise, approximately 50% of portable gaming console owners who also had iPhones or Androids stated that owning a smartphone reduced time spent with their gaming device. One-third of smartphone owners who do not own portable gaming consoles stated that owning a smartphone stopped their desire to purchase a gaming device. Finally, looking to emerging behaviors, over 60% of smartphone users now state that they would consider using their device to purchase goods or have already done so.

The momentum behind smartphones challenges companies across sectors to leverage this personal, versatile platform more effectively. Retailers and consumer products (or services) providers who make finding and purchasing their products easier with secure mobile apps will be winners, as these reflect increasingly common user digital and buying behaviors.

Figure 4: User Satisfaction with Smartphones Continues to Shift¹



¹ Responses range from 1 = “Not at all satisfied” to 6 = “Very satisfied”
Source: iConsumer 2008-2010, US 13-64 year-old internet users

4. Demand for more digital services expands monetization models.

Smartphones and other mobile devices are indispensable for many users, who are continually trying to get the most mileage out of their phones. We found that smartphone users are increasingly habituated to paying for content, in contrast to traditional online Web behavior. While 75% of apps downloaded onto smartphones are free, 75% of iPhone users now pay for some apps per month (as do almost 50% of Android users).

In gaming, we observe an explosion in the market for virtual goods such as items that can be used in-game and characters. Over 45% of subscribers to massively multiplayer online game (MMOG) services purchase virtual goods, stating that they spend over \$11 per month on average.

Among digital experiences more broadly, consumers are also warming up to targeted ads, with almost one-third of respondents now viewing targeted online ads positively, an increase of 5 percentage points in two years, with another third neutral (see Figure 5). It may be that social networks and mobility have redefined the idea of privacy for many, who now appreciate if not expect that offers reflect their interests, connections or locations.

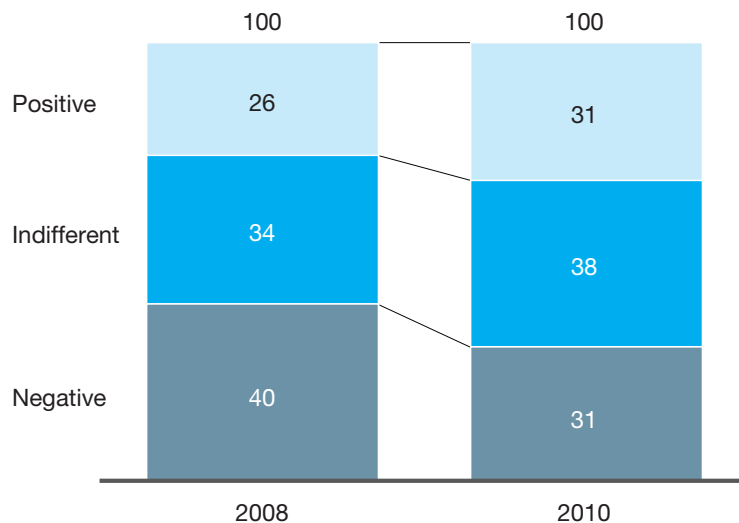
These findings are good news for content and services providers who are wondering if developing digital solutions will actually deliver any real, incremental returns. Our preliminary analysis is that new monetization models are possible with mobile and other digital platforms, and that many will become an important component of a multi-platform service strategy.

Over 45% of subscribers to massively multiplayer online game (MMOG) services purchase virtual goods, stating that they spend over \$11 per month on average.

Figure 5: iConsumers Are Warming to Online Targeted Ads

Attitudes towards targeted online advertising

% of respondents

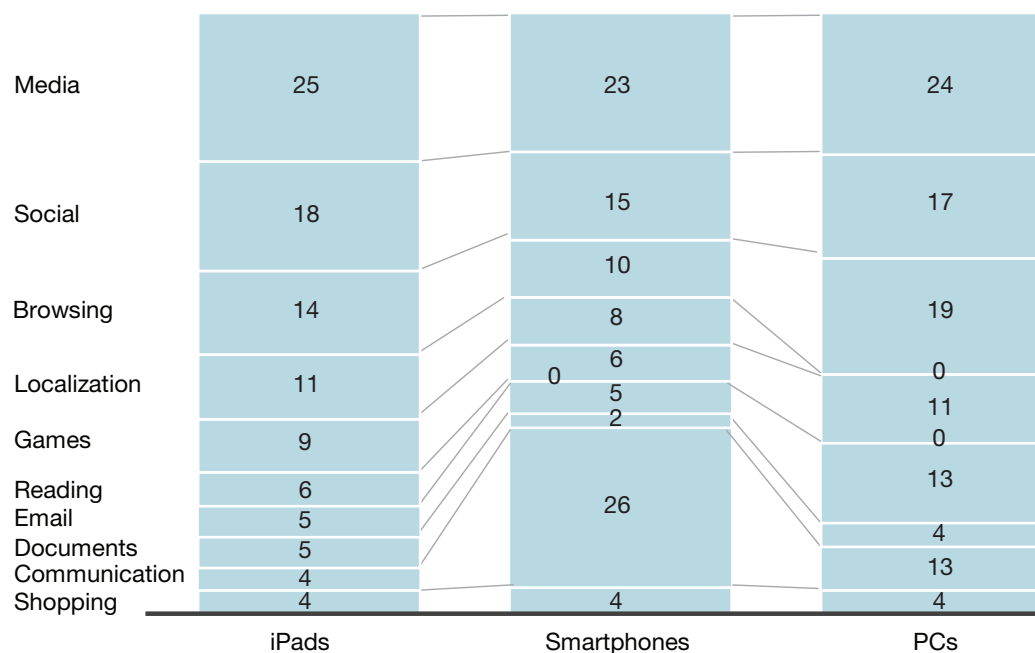


5. Tablets are delivering a new user experience, not just another gadget. Even though the iPad is only one year old, its impact has been enormous—not just in terms of sales or inspiring a plethora of competitors but in how it has reshaped consumers’ digital lives, including how and where they consume content. We found a number of intriguing patterns emerging as tablets take root in homes across the globe.

The first is that tablets are, for the most part, home-based. They don’t get out much. iPad owners who we surveyed reported that over 60% of their use was in the home. Why? That may be explained by looking at the tablet user profile we developed, which is distinctly different from a smartphone or PC user (see Figure 6). Tablets appear to be displacing some home-based media like newspapers or cookbooks, shaving off 20% of the time they spent with newspapers in favor of digital versions. It is worth noting that, despite displacing some print usage, tablets may have a silver lining as the moneymaker daily news organizations and magazine publishers need. Traditional publishers already have subscribers and content development pipelines. If they extend that relationship by providing compelling, unique digital content (videos or dialogues with newsmakers, reporters and columnists, for example) to augment core editorial, they could attract both a sizable subscribing audience as well as advertisers eager to reach subscribers in a more personal way.

The portability of tablets helps explain in part why owners prefer to use them in the home. Tablets enable place-shifting to locations where many don’t have access to or are unwilling to bring a TV, PC or laptop. Tablets are also used as supplemental tools to complement traditional media, allowing users to conduct research or participate in chat forums related to TV content they are watching, for example. Their unique physical attributes and ability to enhance as well as displace other media bodes well for the future of tablets. Yet, all multi-platform strategies test the marketing and content development skills of traditional media and new content providers alike. Now is the time to experiment with delivery and subscription models to determine which have the greatest pull from consumers, and which are profitable in the long run.

Figure 6: Distribution of Use by Platform (% Minutes of Usage)



This article is just one snapshot showing the changing digital lives of distinct segments of consumers. It is the first in a series that will include discussions of markets outside of the U.S. and present deeper dissections of specific digital activities such as mobile and commerce. Digital has upended how we interact, how we entertain ourselves, how we buy, and how we work, yet despite all this we suspect that we are still in the earliest days of the digital revolution. A change of this magnitude can only be understood with a broad effort like the one we have undertaken with iConsumer, evaluating the full range of consumer behaviors and enabling comparison across segments and ultimately geographies.

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