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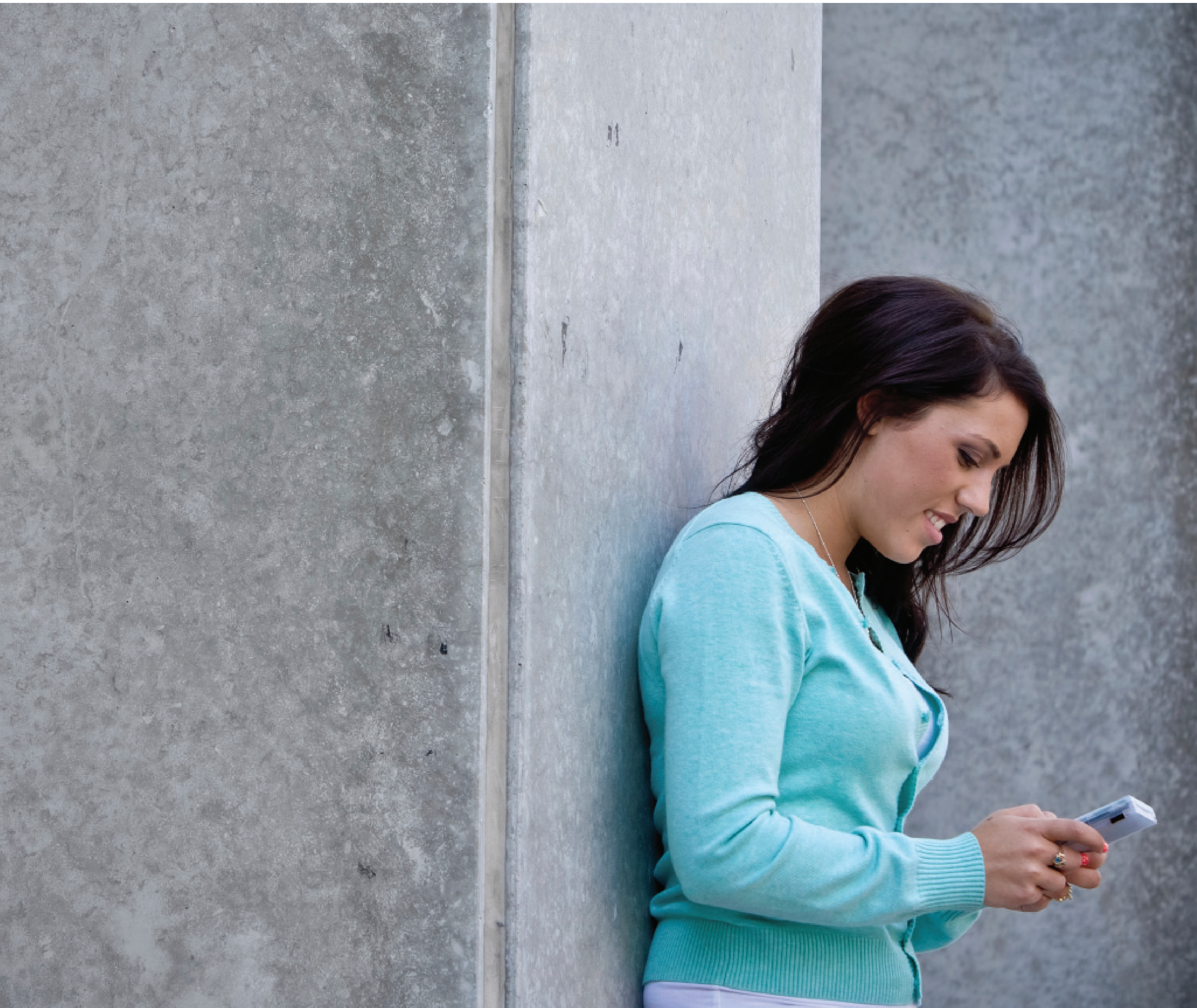
Insights from McKinsey's Global iConsumer Research

# The Young and the Digital: A Glimpse into Future Market Evolution



### *iConsumer Maps Shifts in Digital Behavior Around the Globe*

This article is one of a series documenting the changing digital lives of consumers. Previous reports—*The World Gone Digital* and *Gaming Expands Its Presence in the Digital Universe*—are available on McKinsey.com. McKinsey began its exploration of consumer digital behavior in 2008. By the end of 2011, we had surveyed more than 100,000 consumers across North America, Europe, India and China to understand how consumers conduct a range of activities, from core communications like e-mailing or socializing, to consumption of types of content (video, audio, games, etc.) to commerce and creative applications. iConsumer research now covers 15 countries globally. As discussed in this article and the previous reports, digital has upended how we interact, how we entertain ourselves, how we buy, and how we work. The analytics and insights from our iConsumer data can help companies identify new trends at the global, market and consumer segment levels as well as isolate consumer use, buying factors and attitudes. iConsumer has been used to identify investment themes, augment proprietary research and segmentation, improve multi-channel execution, and build value-creating customer lifecycle management capabilities.

# *Bridging the Current and Future Digital Divide*

How well do you understand young consumers—those folks under 35? Could you describe how they communicate, with what devices, and why fairly accurately? Important questions to answer, particularly for high tech, telecom and media firms. Half-trillion dollar questions, actually, as that is McKinsey's estimate of the aggregate market that will be affected by this cohort. While many commentators note the swift uptake of all things digital by younger consumers, new insights from McKinsey's iConsumer research quantify the distinct differences in digital device usage and digital content consumption between U.S. consumers aged 13-34 (youths) and consumers aged 35-64, and the implications these differences raise for telecom, media and entertainment, and high tech companies.

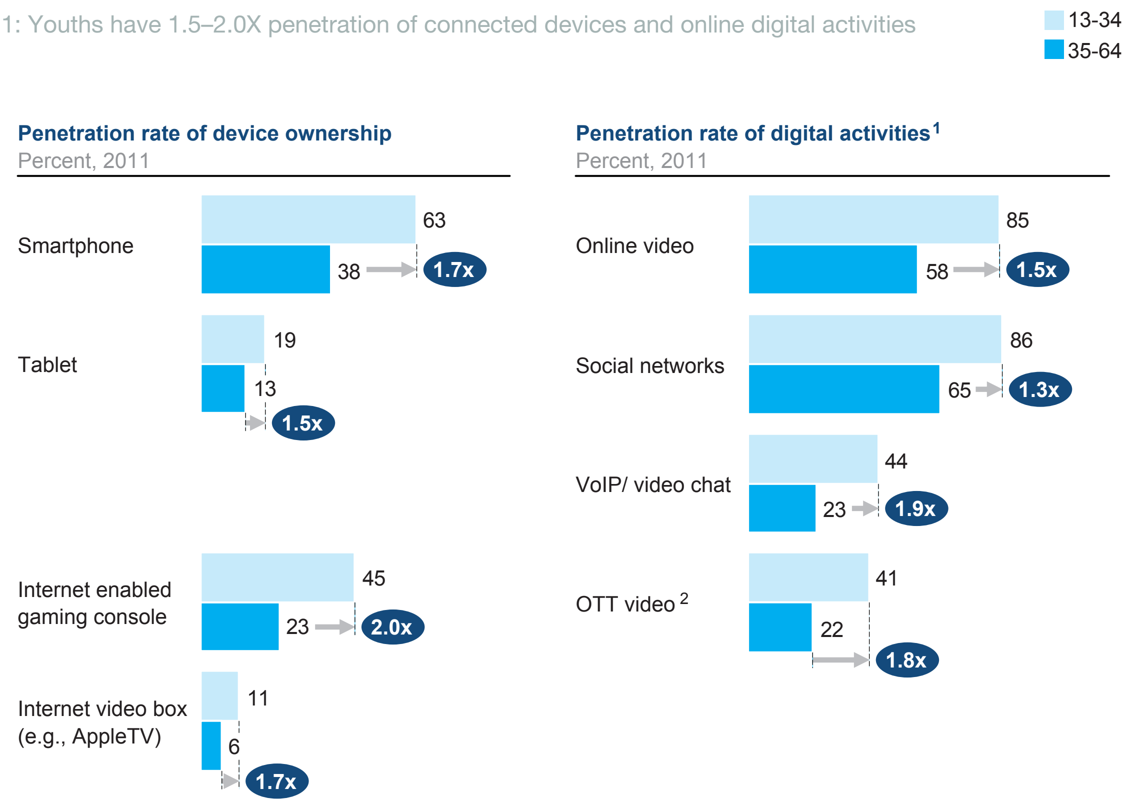
What we found is that American youths have digital lives distinct from older consumers: they don't and won't buy PCs or many laptops preferring smartphones or tablets. Landlines are a curious waste to them, as are CDs and most hard copy media—newspapers, magazines, and books. Not surprisingly they are almost twice as likely to own portable digital devices as older consumers, and lead the way in adopting new services such as video chat, social media for many types of communication, and on-demand video.

But it's not only their current behavior and preferences that present a challenge to many companies, or even the greatest challenge. It's what it portends for the future. Based upon current youth penetration and usage, projected cumulative revenue from youths in emerging digital streams over the next three years tops $15 billion across mobile advertising , mobile apps, on-demand digital video, and social network advertising. However, their choices in devices and content providers will affect $500 billion in annual estimated spend across PCs, mobile/landline voice, and paid TV.  Brands that ushered in the digital age such as Microsoft, Sony and Yahoo! don't resonate with youths as much as Apple or Google as the digitalization of life continues. Is losing this market a foregone conclusion for more mature companies? No, but it will require some new thinking. Companies will need to invest in capabilities, services, partnerships and business models that reach and retain this critical segment. In short, take action to bridge the divide before it becomes an abyss.

# *Youth Segment Drives Current and Future Digital Consumption*

"Early adopters" may be an understatement, at least in some categories of activity. In the past five years, there has been rapid proliferation of new platforms and digital offerings and youths drove adoption of many of these devices and services. Compared to consumers aged 35-64, youths are 1.5 to 2 times more likely to own a smartphone, tablet, internet enabled gaming console, or internet video box. Similarly, youths are more than 1.5 times more likely to go online to communicate through social networks and VoIP/video chat or access entertainment such as online and OTT video. (See Figure 1).

Figure 1: Youths have 1.5–2.0X penetration of connected devices and online digital activities




1 Penetration rate based on users who do the activity at least once a month across any device (PC, mobile, tablet)
2 OTT (over-the-top) is defined as consumption of internet-based video on TV via connected devices
SOURCE: 2011 McKinsey survey of ~20,000 US internet users, aged 13-64

Surprisingly, when further segmenting youths into the most common life stages—teens (13-17), college-aged (18-21) and young adults (22-34)—there are minimal differences in penetration rates of devices and activities. The two exceptions are online gaming, which skews slightly towards teens, and VoIP/video chat, which is favored by more college-aged youths. The most dramatic drop-off in usage occurs after consumers "age out" of their youth in their mid- to late-30s. The most probable explanation is that this post-youth stage of life is when many consumers have young children and career demands that combine to limit the amount of time available for device usage or quick adoption. The high level of familiarity with digital devices and channels and the consistency of digital behavior before consumers reach 35, however, suggest an opportunity and challenge to device makers and content providers alike. Companies will need to work harder to create offerings that would maintain usage by the 35-44 year old cohort, and adopt different customer management approaches for this time-starved group.

EEven more compelling than adoption of devices is the higher willingness of youths to pay for digital content. We found that across the content menu (see Figure 2), youths are 1.5 to 2.3 times more likely to purchase premium content subscriptions and apps. Many use their mobile device as the predominant gateway to news, entertainment, and communication. Unlike older consumers, youths may not have existing non-digital subscriptions to magazines and newspapers, or even a landline phone or paid TV service, so they are not duplicating channels or costs by paying for digital content. The relative portability also drives consumption of digital content.

The implications of this are significant for content owners who are looking to drive more revenue from subscription services. Combining subscription/transaction services of youth-oriented content optimized for digital platforms could habituate more consumers to turn to digital channels exclusively, which could extend into later life stages.

Figure 2: Penetration of digital content spending by activity/product by age segment

| Content type | Youths (13-34) | Other (35-64) | Difference |
|---|---|---|---|
| **Paid subscriptions** | | | |
| Subscription for premium video content on your PC | 20% | 12% | 1.6x |
| Online newspaper subscription (e.g., *Wall Street Journal Online*) | 11% | 5% | 2.3x |
| Digital reader newspaper subscription (e.g., *New York Times* on Kindle) | 31% | 18% | 1.7x |
| Online magazine subscription (e.g., *The Economist*) | 12% | 6% | 2.0x |
| PC2Phone (e.g., SkypeOut) | 20% | 13% | 1.5x |
| **Mobile or tablet app purchases (users who spent more than $0)** | | | |
| Purchasing a game app | 31% | 19% | 1.6x |
| Purchasing an app version of a magazine or newspaper | 16% | 10% | 1.7x |

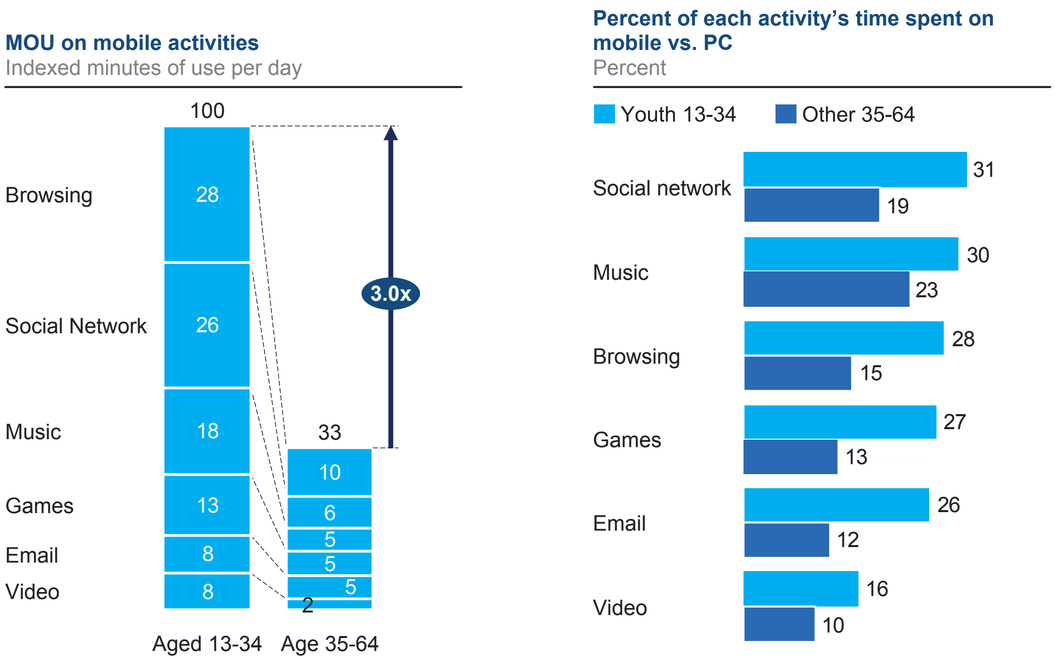
SOURCE: 2011 McKinsey survey of ~20,000 US internet users, aged 13-64

# *Mobile Devices as the Preferred Vehicle for Communication and Entertainment*

With the rapid proliferation of smartphones, mobile is quickly becoming the device of choice for online activities. This trend is particularly noticeable in youths who spend over three times the number of minutes on their mobile device for common online activities than those over 35+. For example, both the youth and 35+ age groups spend more time on email on their PCs than mobile phones, but as a proportion of time spent,youths spend 26 percent of total email time on their mobile versus only 12 percent for the older age group (see Figure 3). Youths' preference for mobile is also evident in the time spent browsing the web and using social networks; our survey shows that even when they are near a PC or laptop they often prefer using their smartphone to access and consume content because it is more convenient and personal.

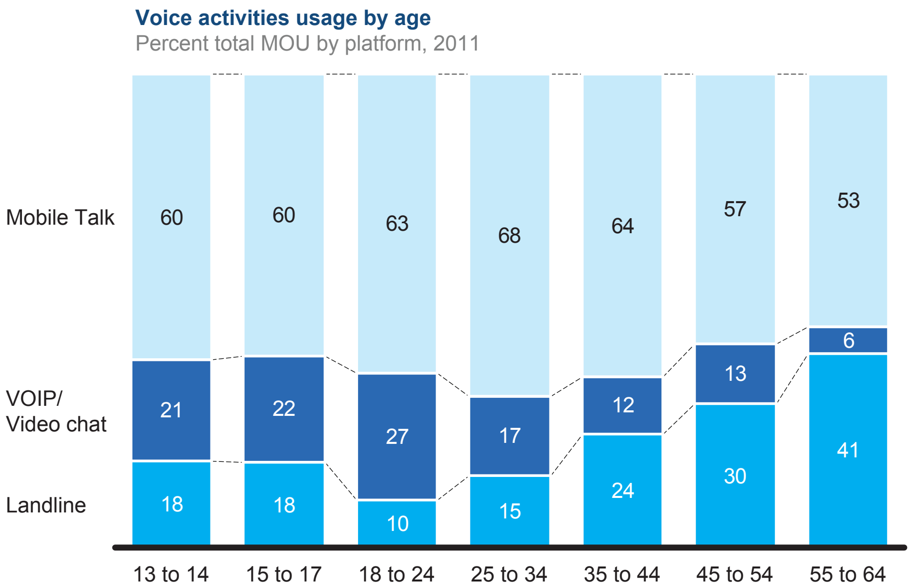
Furthermore, while mobile voice has long been cannibalizing land-line phone usage, traditional telecom players are now seeing the next wave of increased competition from VoIP/video chat (e.g., Skype, Facetime). Especially in youths, minutes devoted to VOIP/video chat are starting to reach that of mobile phones and have overtaken landlines, whereas older demographics are still heavily reliant on traditional methods of communication (see Figure 4).

Figure 3: Youths 13-34 spend over 3x the time on their mobile than those 35-64; in addition, youths spend a greater proportion of each activity's time on mobile than on PC




SOURCE: 2011 McKinsey survey of ~20,000 US internet users, aged 13-64

Figure 4: Older audiences rely more on traditional talk and landline while younger ones employ video chat over landline

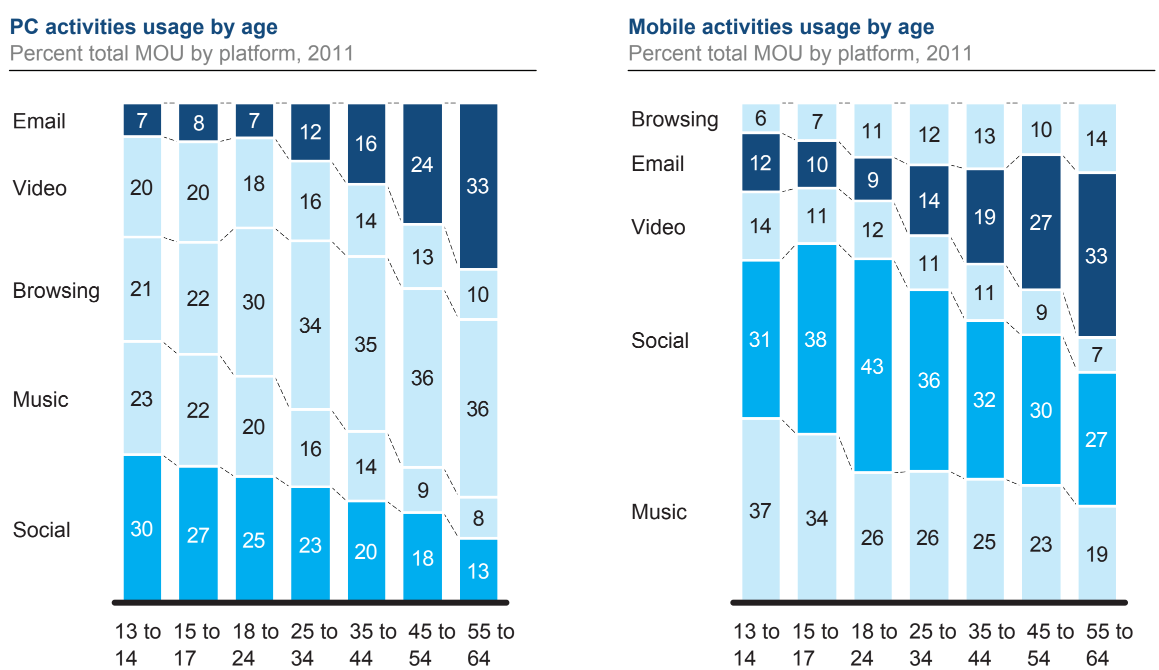



1 Voice media usage as defined as average minutes of use for mobile talk, Voip/Video chat, and landline usage
SOURCE: 2011 McKinsey survey of ~20,000 US internet users, aged 13-64

# *Social Networking as Communication Central*

With the continued demand for real-time communication with and among multiple people, social networks, particularly Facebook, are emerging as a core online activity. For youths, social networks have displaced email (by proportion of online minutes of use per day) on both PCs and mobile phones (see Figure 5). Of those who own smartphones, 75 percent of youths use mobile social networks at least once a month vs. 48 percent of older smartphone owners. Social networks also are becoming information and entertainment portals as many youth consumers see them as the most convenient way to share videos, photos, and other content among friends and family. As a result, marketers should be adapting their digital strategies to incorporate social networks as an increasingly important communication channel to drive word-of-mouth marketing.

Figure 5: Youths focus on social networking, while older audiences spend significantly more time on email




SOURCE: 2011 McKinsey survey of ~20,000 US internet users, aged 13-64

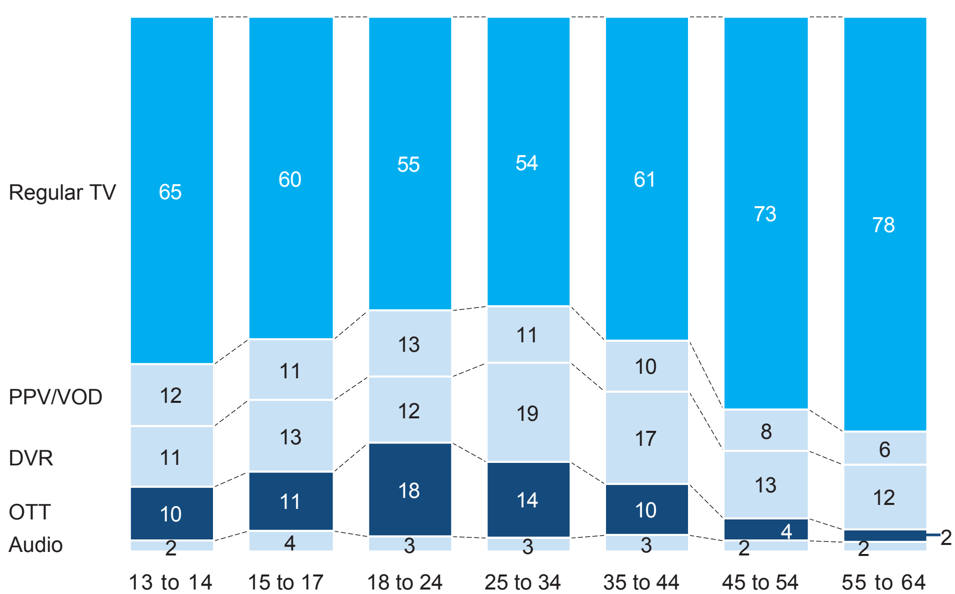
# *On-Demand Video has Growing Following*

As digital platforms multiply, consumer video-viewing habits have changed as well. Overall TV viewing time has increased slightly across all age groups, but youths are displacing regular (linear) TV with more on-demand internet-enabled video. Over-the-top (OTT) has traction with 41 percent of youths, who watch OTT video at least once a month versus only 22 percent of consumers aged 35-64. This could, in part, be driven by the proliferation of internet-enabled gaming consoles owned (or at least controlled by) youths as many are already integrated with leading OTT video service providers (e.g., Netflix). Roughly a third of all OTT viewing today is via gaming consoles, which skew heavily towards youths (41 percent of youths, who watch OTT video at least once a month versus only 22 percent of consumers aged 35-64. ) (Figure 6).

Across non-TV devices (PC, mobile, tablet), youths' online video adoption rate is 46 percent higher, and time spent viewing is nearly 2 times that of older consumers. This demand for anytime, anywhere video is driving opportunities for new areas of competition and innovation across multiple platforms for both traditional and emerging video players.

Advertisers must refine marketing plans so that they reflect this new video-viewing behavior and get creative about targeting youths who are time-shifting and consuming video on-demand across devices.

Figure 6: Older audiences are watching more live TV and younger ones are watching OTT




SOURCE: 2011 McKinsey survey of ~20,000 US internet users, aged 13-64

# *Youth Brand Affiliation and Online Preferences are Also Distinctive*

In addition to the differences in digital behavior between youths and older consumers, it is also clear that some brands and platforms hold particular appeal for younger consumers. Given youths' reliance on mobile devices, as well as their general interests and digital behavior, it is no surprise to find Facebook, VEVO, Apple and Viacom Digital among the top online properties for youths,. The challenge for companies seeking to serve more of the youth market themselves is learning from these sites, and finding how to leverage or affiliate with them (or adopt their attributes) to generate more interest from youths. Companies may need to rethink their creative ad content and placement, for example, and experiment with combinations of content and ads to determine what actually drives higher penetration in the youth segment.

Youths are the leading indicators of future digital demand. Devices such as smartphones and tablets, and online offerings in social networks, online and OTT video, and VOIP/video chat are but a few examples of emerging changes in the digital revolution. The current youth generation will grow into an older generation of relatively tech-savvy adults compared to the current group of 35+, but youths as an age group will likely continue to drive adoption of the latest devices, content, and digital services yet to come.

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The $500 billion future that young consumers will drive has actually begun, although their current impact is unevenly distributed. But we're confident that more and more youths' preferences will shape the digital world as they gravitate to and integrate certain brands, platforms, and activities into all facets of their work and personal lives. Companies that don't win youths' attention now may be in danger of creating the next VHS of the digital age–a business that will wither as this influential cohort declines to engage with it.

McKinsey's iConsumer research can provide companies with deeper insight into the critical youth segment and help companies become more relevant to it by:

1. Ensuring that they are active in and optimizing the right platforms to reach youths, be it mobile, tablets, social media, streaming on-demand video or all of these

2. Helping them affiliate with or become one of brands youths care about by refining services and products, and marketing, to appeal to the segment

3. Adopting a business model that reflects youths' digital behavior, this may mean rebalancing ad— versus subscription-based revenue models, or making greater use of mobile apps to support products and services.

Many brands and content providers have already taken steps to become or remain relevant to youths, but some have not and will pay the price, either in terms of lost share or missed opportunities. Vigilance is critical, allowing companies to adjust their approaches as quickly as youths' change their digital behavior.

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