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The rise of the networked enterprise: Web 2.0 finds its payday

McKinsey's new survey research finds that companies using the Web intensively gain greater market share and higher margins.

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Every new technology has its skeptics. In the 1980s, many observers doubted that the broad use of information technologies such as enterprise resource planning (ERP) to remake processes would pay off in productivity improvements—indeed, the economist Robert Solow famously remarked, "You can see the computer age everywhere but in the productivity statistics."[1] Today, that sentiment has gravitated to Web 2.0 technologies. Management is trying to understand if they are a passing fad or an enduring trend that will underwrite a new era of better corporate performance.

New McKinsey research shows that a payday could be arriving faster than expected. A new class of company is emerging—one that uses collaborative Web 2.0 technologies intensively to connect the internal efforts of employees and to extend the organization's reach to customers, partners, and suppliers. We call this new kind of company the networked enterprise. Results from our analysis of proprietary survey data show that the Web 2.0 use of these companies is significantly improving their reported performance. In fact, our data show that fully networked enterprises are not only more likely to be market leaders or to be gaining market share but also use management practices that lead to margins higher than those of companies using the Web in more limited ways.

Over the past four years, McKinsey has studied how enterprises use these social technologies,[2] which first took hold in business-to-consumer models that gave rise to Web companies such as YouTube and

[1] Robert M. Solow, "We'd better watch out," *New York Times*, July 12, 1987.

[2] See "How businesses are using Web 2.0: A McKinsey Global Survey," mckinseyquarterly.com, March 2007; "Building the Web 2.0 Enterprise: McKinsey Global Survey Results," mckinseyquarterly.com, July 2008; "How companies are benefiting from Web 2.0: McKinsey Global Survey Results," mckinseyquarterly .com, September 2009; and Michael Chui, Andy Miller, and Roger P. Roberts, "Six ways to make Web 2.0 work," mckinseyquarterly.com, February 2009.

Takeaways

A new class of company is emerging that uses collaborative Web 2.0 technologies to connect its employees and to forge close networks with customers, business partners, and suppliers.

These networked enterprises are becoming more competitive, showing improved performance in three areas: market share gains, market leadership, and higher margins.

Intensive use of social technologies is central. But even more important, companies must adopt management innovations to realize a truly transformational impact.

At leading companies, information flows are less likely to be hierarchical, allowing employees at lower levels to make decisions.

Facebook. Recently, the technologies have been migrating into the enterprise, with the promise of creating new gains to augment those generated by the earlier wave of IT adoptions.[3] The patterns of adoption and diffusion for the social Web's enterprise applications appear to resemble those of earlier eras: a classic *S*-curve, in which early adopters learn to use a new technology, and adoption then picks up rapidly as others begin to recognize its value. The implications are far reaching: in many industries, new competitive battle lines may form between companies that use the Web in sophisticated ways and companies that feel uncomfortable with new Web-inspired management styles or simply can't execute at a sufficiently high level (see sidebar, "Managing the Web-based organization").

The findings

Our annual surveys of Web 2.0 use in the enterprise provided the basis for the findings in this article. The present survey, our fourth, garnered responses from 3,249 executives across a range of regions, industries, and functional areas. Two-thirds of the respondents reported using Web 2.0 in their organizations. As in past surveys, we asked respondents about their patterns of Web 2.0 use, the measurable business benefits they derived from it, and the organizational impact of Web technologies. We also inquired about the market position of the respondents' companies, whether their market share had changed, and how their operating margins compared with those of competitors in the same industries.

Web 2.0 technologies are now more widely used

The share of companies where respondents report using Web 2.0 technologies continues to grow. Our research, for instance, shows significant increases in the percentage of companies using social networking (40 percent) and blogs (38 percent). Furthermore, our surveys show that the number of employees using the dozen Web 2.0 technologies continues to increase.[4] Respondents at nearly half of the companies that use social networking say, for example, that at least 51 percent of their employees use it. And in 2010, nearly two-thirds of respondents at companies using Web 2.0 say they will increase future investments in these technologies, compared with just over half in 2009. The healthy spending plans during both of these difficult years underscore the value companies expect to gain.

Among respondents at companies using Web 2.0, a large majority continue to report that they are receiving measurable business benefits—with nearly nine out of ten reporting at least one. These benefits ranged from more effective marketing to faster access to knowledge (Exhibit 1).

Toward the networked enterprise

We analyzed the shared characteristics of groups of organizations in our survey and clustered them according to the magnitude of the business benefits respondents reported from the use of Web 2.0 tools and technologies. Our analysis revealed striking differences.

Among respondents who say their companies are using Web 2.0, most (79 percent) achieved a mean improvement of 5 percent or less across a range of business benefit metrics (Exhibit 2). Respondents at the companies in this group report the lowest percentages of usage among their employees, customers, and business partners; say that Web 2.0 is less integrated into their employees' day-to-day work than respondents at other companies do; and are least likely to

[3] Andrew McAfee, *Enterprise 2.0: New Collaborative Tools for Your Organization's Toughest Challenges*, Boston, MA: Harvard Business School Press, 2009.

[4] For more details, see "Business and Web 2.0: An interactive feature," mckinseyquarterly.com, December 2010.

Respondents at half of the internally networked organizations reported that Web 2.0 is integrated tightly into their work flows.

Exhibit 1

A majority of respondents say their companies enjoy measurable business benefits from using Web 2.0.

■ % of respondents whose companies are achieving specified benefits from their use of Web 2.0 technologies[1]

■ Median improvement, %

Internal purposes, n = 1,598	% of respondents	Median improvement, %
Increasing speed of access to knowledge	77	30
Reducing communication costs	60	10
Increasing speed of access to internal experts	52	30
Decreasing travel costs	44	20
Increasing employee satisfaction	41	20
Reducing operational costs	40	10
Reducing time to market for products/services	29	20
Increasing number of successful innovations for new products or services	28	20
Increasing revenue	18	15

Customer-related purposes, n = 1,708	% of respondents	Median improvement, %
Increasing effective-ness of marketing	63	
Awareness		20
Consideration		15
Conversion		10
Loyalty		10
Increasing customer satisfaction	50	18
Reducing marketing costs	45	15
Reducing support costs	35	10
Reducing travel costs	29	20
Reducing time to market for products/services	26	20
Increasing number of successful innovations for new products/services	24	15
Increasing revenue	24	10

Working with external partners/suppliers, n = 1,088	% of respondents	Median improvement, %
Increasing speed of access to knowledge	57	20
Reducing communication costs	53	15
Increasing satisfaction of suppliers, partners, external experts	45	20
Increasing speed of access to external experts	40	25
Reducing travel costs	38	20
Reducing time to market for products/services	28	20
Reducing supply chain costs	22	10
Reducing product-development costs	22	15
Increasing number of successful innovations for new products/services	20	15
Increasing revenue	16	11

[1]Includes respondents who are using at least 1 Web 2.0 technology.

report high levels of collaboration or information sharing across the organization. We call these companies, still learning the ropes of Web 2.0, the "developing" group.

Three types of organizations, however, seem to have learned how to realize a much higher level of business benefits from their use of Web 2.0.

Internally networked organizations. Some companies are achieving benefits from using Web 2.0 primarily within their own corporate walls. The survey results indicate that companies in this group—13 percent of those using Web 2.0—derive substantial benefits from deploying these technologies in employee interactions. Respondents at such organizations report a higher percentage of employees using Web 2.0 than respondents at developing organizations do. Respondents at half of the internally networked organizations reported that Web 2.0 is integrated tightly into their work flows, for example, compared with only 21 percent of respondents at developing organizations. Web 2.0 also seems to promote significantly more flexible processes at internally networked organizations: respondents say that information is shared more readily and less hierarchically, collaboration across organizational silos is more common, and tasks are more often tackled in a project-based fashion.

Externally networked organizations. Other companies (5 percent of those deploying Web 2.0) achieved substantial benefits from interactions that spread beyond corporate borders by using Web 2.0 technologies to interact with customers and business partners, according to survey results. Executives at these organizations reported larger percentages of their employees, customers, and partners using Web 2.0 than respondents at internally networked organizations did. But the responses suggest that the internal organizational processes of externally networked organizations are less fluid than those of internally networked ones.

Fully networked enterprises. Finally, some companies use Web 2.0 in revolutionary ways. This elite group of organizations—3 percent of those in our survey—derives very high levels of benefits from Web 2.0's widespread use, involving employees, customers, and business partners, according to the survey. Respondents at these organizations reported higher levels of employee benefits than internally networked organizations did, as well as higher levels of customer and partner benefits than did externally networked organizations. In applying Web 2.0 technologies, fully networked enterprises seem to have moved much further along the learning curve than other organizations have. The integration of Web 2.0 into day-to-day activities is high, executives say, and they report that these technologies are promoting higher levels of collaboration by helping to break down organizational barriers that impede information flows.

Capturing competitive advantage

Executives at the more highly networked companies in our survey reported that they captured a broad set of benefits from their Web investments. A key question remained, however: do these benefits translate into fundamental performance improvements, measured by self-reported market share gains and higher profits?

We performed a series of statistical analyses to better understand the relationship between our categories of networked organizations and three core self-reported performance metrics: market share gains, operating profits, and market leadership. Exhibit 3 shows the results.

Market share gains reported by respondents were significantly correlated with fully networked and externally networked organizations. This, we believe, is statistically significant evidence that technology-enabled collaboration with external stakeholders helps organizations gain market share from the competition. They do this, in our experience, by forging closer marketing relationships with customers and by involving them in customer support and product-development efforts. Respondents at companies that used Web 2.0 to collaborate across organizational silos and to share information more broadly also reported improved market shares.

The attainment of higher operating margins (again, self-reported) than competitors correlated with a different set of factors: the ability to make decisions lower in the corporate hierarchy and a willingness to allow the formation of working teams comprising both in-house employees and individuals outside the organization. These findings suggest that Web technologies can underwrite a more agile organization where front-line staff members make local decisions and companies are better at leveraging outside resources to raise productivity and to create more valuable products and services. The result, the survey suggests, is higher profits.

Market leadership, which we ascribed to those organizations where respondents reported a top ranking in industry market share, correlated positively with internally networked organizations that have high levels of organizational collaboration. Self-reported market leadership also, however, correlated negatively with externally networked organizations. We believe it is unlikely that better interactions with external stakeholders lead to a decline in market position. A more likely explanation for the data is that market leaders use Web 2.0 to strengthen internal collaboration, seeking to enhance the organizational resiliency required to maintain their leadership positions. Market challengers, by contrast, may be more focused on external uses of Web 2.0 to win customers from industry leaders.

Overall, we found that respondents at 27 percent of the companies in our survey reported having both market share gains against their competitors

Managing the Web-based organization

Respondents report that a variety of organizational structures and units manage Web 2.0. This year's results show that the IT department is most likely to oversee internal Web initiatives (61 percent of respondents). For customer-facing initiatives, 74 percent of respondents say that oversight falls to the marketing department. For Web 2.0 initiatives involving external suppliers and partners, roughly equal numbers of respondents cite the IT, marketing, and business-development functions. Financing comes from a variety of places, including the IT function, central corporate sources, and discretionary funds at the business unit level.

The social nature of most Web technologies, of course, opens companies to greater interaction with the outside world. To manage this change, a slim majority of respondents (51 percent) say their companies have adopted formal social-media policies; companies with higher levels of Web 2.0 adoption are likelier to have them. In most cases, only a few employees are authorized to speak on behalf of the company.

and higher profit margins. That kind of performance clearly makes these companies profit consolidators in their industries, with earnings growing faster than the rest. Highly networked enterprises were 50 percent more likely to fall in this high-performance group than other organizations were. This finding suggests that the fully networked enterprise could become the benchmark for more vigorous competition in many industries.

Moreover, the benefits from the use of collaborative technologies at fully networked organizations appear to be multiplicative in nature: these enterprises seem to be "learning organizations," in which lessons from interacting with one set

Exhibit 2

Different types of networked organizations achieve different benefits.

		Organization type: Less networked, n = 1,711	Internally networked, n = 287	Externally networked, n = 100	Fully networked, n = 76
Benefits, mean % improvement	Employee benefit metrics	5	19	9	31
	Customer benefit metrics	4	8	19	24
	Partner benefit metrics	5	10	17	27
Degree of usage	% of employees using Web 2.0	33	42	47	47
	% of customers using Web 2.0	31	50	59	62
	% of partners using Web 2.0	42	53	59	66
Integration, % of respondents[1]	Web 2.0 integrated into day-to-day work	21	49	53	70
Organizational impact, % of respondents[2]	Increased information sharing	21	52	43	55
	Less hierarchical information flows	17	40	25	49
	Collaboration across organizational silos	10	31	14	41
	Tasks tackled in project-based way	9	24	15	39
	Decisions made lower in corporate hierarchy	5	14	19	25
	Work performed by mix of internal and external people	8	21	15	29

[1]Specifically, respondents who reported Web 2.0 being very or extremely integrated into employees' day-to-day work activities.
[2]Specifically, respondents who strongly agreed that these characteristics applied to their companies.

Exhibit 3

Statistical analyses offer insight into the relationship between use of Web 2.0 tools and three core self-reported corporate-performance metrics.

	Web 2.0–related factors significantly correlated with corporate-performance metrics	**Correlation coefficient** (higher = greater correlation)	**P-value** (less than 0.05 = statistically significant)
1. Market share gains	Externally networked organization	.427	.001
	Fully networked organization	.344	.019
	Organizational collaboration: cooperation across organizational silos, more project-based handling of tasks, less hierarchical information flows, and increased information sharing	.065	.026
2. Operating margins compared with those of competitors	Distributed decision making and work: decision-making power situated lower in corporate hierarchy, more working teams composed of employees and people outside organization	.075	.029
3. Market leadership—ie, first in industry market share	Internally networked organization	.182	.038
	Organizational collaboration (see explanation above)	.077	.011
	Externally networked organization	–.362	.008

of stakeholders in turn improve the ability to realize value in interactions with others. If this hypothesis is correct, competitive advantage at these companies will accelerate as network effects kick in, network connections become richer, and learning cycles speed up.

Going forward

The imperative for business leaders is clear: falling behind in creating internal and external networks could be a critical mistake. Executives need to push their organizations toward becoming fully networked enterprises. Our research suggests some specific steps:

- Integrate the use of Web 2.0 into employees' day-to-day work activities. This practice is the key success factor in all of our analyses, as well as other research we have done. What's in the work flow is what gets used by employees and what leads to benefits.

- Continue to drive adoption and usage. Benefits appear to be limited without a base level of adoption and usage. Respondents who reported the lowest levels of both also reported the lowest levels of benefits.

- Break down the barriers to organizational change. Fully networked organizations appear to have more fluid information flows, deploy

Executive perspectives

We asked two executives about their views on the networked enterprise and what comes next.

Jim Smith, Wells Fargo
Jim Smith is executive vice president and managing head of Internet Services Group at Wells Fargo, which began its online strategy 16 years ago. Today, the bank is moving forward using many elements of the networked enterprise—launching banking via mobile devices and deploying social technologies such as Twitter and blogs to forge broader relationships with its customers. Better data on consumers' needs are helping the bank create higher-value services, and over time, Smith says, the goal is to involve a greater numbers of bankers in Web interactions. Visit "The rise of the networked enterprise: Web 2.0 finds its payday," on mckinseyquarterly.com, to listen to a podcast in which Smith discusses Wells Fargo's Web strategy and the cultural changes it has wrought.

Robert Stephens, Best Buy
Robert Stephens is chief technology officer of the electronics retailer Best Buy and founder of Geek Squad, the company's technical-services business. Stephens envisions social and mobile technologies as key tools to helping Best Buy become a vast knowledge network where customers would have access to employees worldwide, both to inform themselves about products and to find answers to problems. Creating a networked enterprise, Stephens believes, means that all employees—from the executive suite down to the store level—need to be committed users of emerging technologies. Above all, those who interact directly with customers need to be curious about what consumers really want. Visit "The rise of the networked enterprise: Web 2.0 finds its payday," on mckinseyquarterly.com, to listen to a podcast in which Stephens discusses Best Buy's initiatives and how the networked enterprise creates competitive advantage.

talent more flexibly to deal with problems, and allow employees lower in the corporate hierarchy to make decisions. Organizational collaboration is correlated with self-reported market share gains; distributed decision making and work, with increased self-reported profitability.

- Apply Web 2.0 technologies to interactions with customers, business partners, *and* employees. External interactions are correlated with self-reported market share gains. So are internal organizational collaboration and flexibility, and the benefits appear to be multiplicative. Fully networked organizations can achieve the highest levels of self-reported benefits in all types of interactions.

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