How businesses are using Web 2.0:
A McKinsey Global Survey

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More than three-fourths of executives who responded to a McKinsey survey say they plan to maintain or increase their investments in technology trends that encourage user collaboration, such as peer-to-peer networking, social networks, and Web services.

More than half say they are pleased with their past Internet investments, though some regret not boosting their own capabilities to exploit technology. More executives said they should have acted faster than slower.

Retailers, who consider their companies cautious investors in the past, are stepping up their pace today. Similarly, many executives in emerging markets such as India and Latin America intend to move more quickly to capture the perceived benefits of these technologies.

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By and large, executives are satisfied with their previous investments in Internet technology, and most are investing in trends that promote automation and networking online.

The rising popularity of user-driven online services, including MySpace, Wikipedia, and YouTube, has drawn attention to a group of technological developments known as Web 2.0. These technologies, which rely on user collaboration, include Web services, peer-to-peer networking, blogs, podcasts, and online social networks.

Respondents to a recent McKinsey survey show widespread but careful interest in this trend.[1] Expressing satisfaction with their Internet investments so far, they say that Web 2.0 technologies are strategic and that they plan to increase these investments. But companies aren't necessarily relying on the best-known Web 2.0 trends, such as blogs; instead, they place the greatest importance on technologies that enable automation and networking.

[1] *The McKinsey Quarterly* conducted this survey in January 2007 and received responses from 2,847 executives worldwide, 44 percent of whom hold C-level positions; all data are weighted by GDP of constituent countries to adjust for differences in response rates.

Successful investments so far

More than half of the executives surveyed say they are pleased with the results of their investments in Internet technologies over the past five years, and nearly three-quarters say that their companies plan to maintain or increase investments in Web 2.0 technologies in coming years. (A mere 13 percent say they are disappointed with previous investments.)

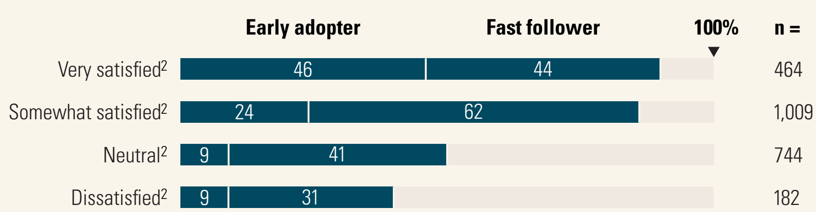
Companies that acted quickly in the previous wave of investment are more satisfied than late movers. Less than a fifth of all those surveyed say they are very satisfied with their returns. Of those who rate themselves as very satisfied, 46 percent are "early adopters" and 44 percent "fast followers" (Exhibit 1).

Exhibit 1

Different outlooks

% of respondents[1]

How satisfied are you with your company's financial return on investment in Web 2.0 technologies over the past 5 years?



[1]Respondents whose companies were late followers or did not invest are not shown.

[2]Very satisfied = paid off beyond expectations and/or faster than expected; somewhat satisfied = paid off as expected and in reasonable amount of time; neutral = paid off as expected but took longer than had been hoped; dissatisfied = didn't pay off as expected or the payoff has taken too long.

Source: 2007 McKinsey survey on Internet technologies

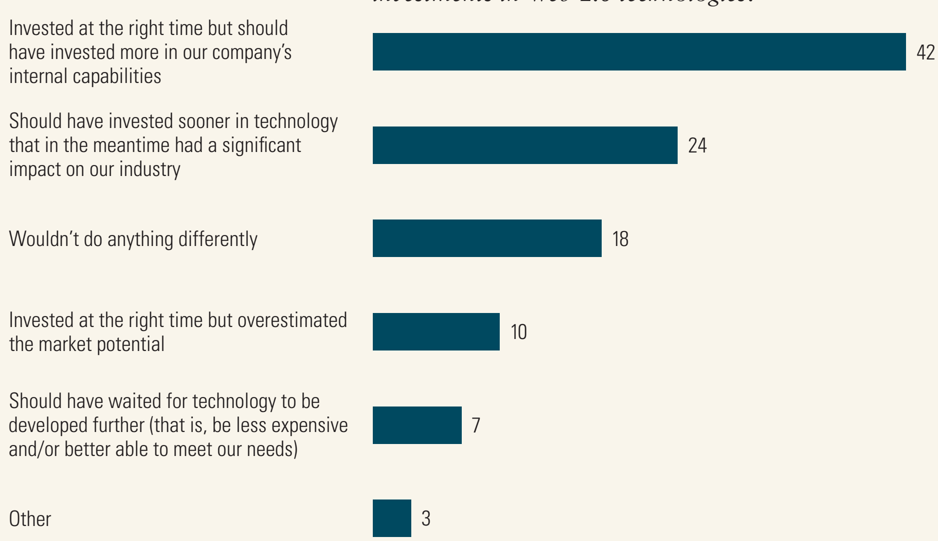
Asked what might have been done differently to make the previous investments in Internet technologies more effective, only 18 percent say they would not have acted differently. Forty-two percent say they would have strengthened their companies' internal capabilities to make the most of the market opportunity at hand (Exhibit 2). Among the 24 percent who say they would have moved faster, many describe their companies as fast followers or early adopters—a strategy consistent with the view that speed is of the essence in technology investments.

Exhibit 2

Rethinking investments

% of respondents (n = 2,623)[1]

Given hindsight, what might your company have done differently during the past 5 years to make more effective investments in Web 2.0 technologies?



[1]Respondents who answered "don't know" are excluded; figures do not sum to 100%, because respondents could select multiple answers.

Source: 2007 McKinsey survey on Internet technologies

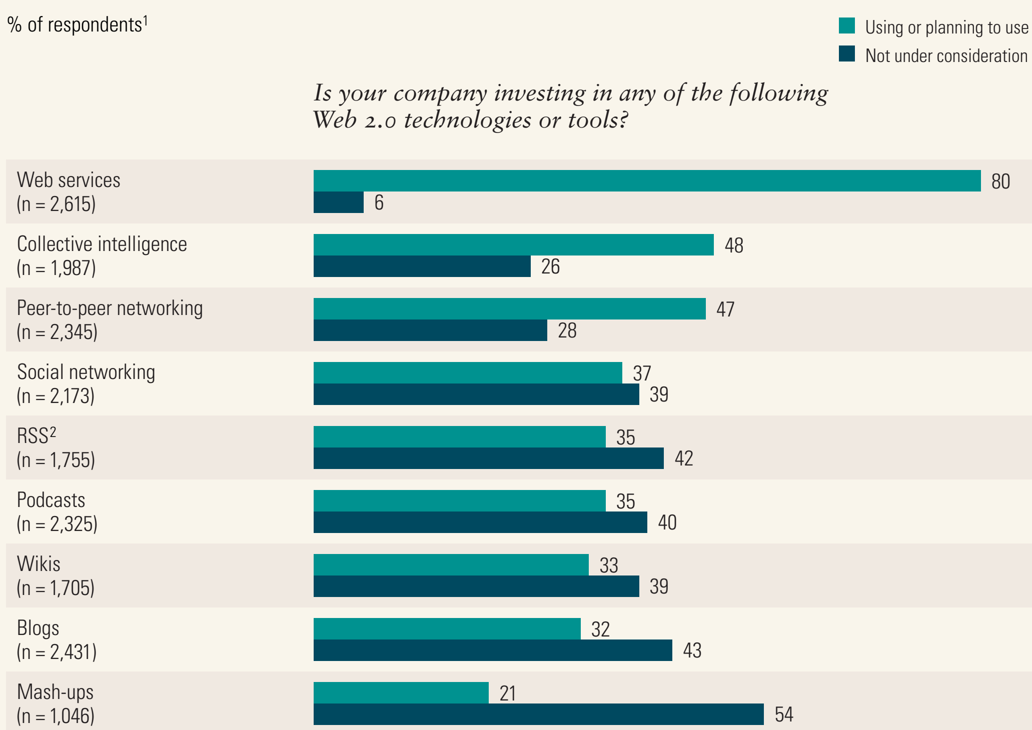
What's next?

Among the executives familiar with the nine Web 2.0 trends cited in the survey (see the sidebar, "What's in Web 2.0"), more than three-fourths say that their companies are already investing in one or more of these trends. The most frequently cited investment is Web services, being used or considered by 80 percent of the respondents familiar with the tools. Peer-to-peer networking also is popular; 47 percent say they are using or considering it (Exhibit 3).

Few executives say that their companies are using more than two of these technologies. But nearly two-thirds of those whose companies are investing in them think they are important for maintaining the company's market position, either to provide a competitive edge or to match the competition and address customer demand. More than one-third labeled them "experimental."

Exhibit 3

Popular bets



[1]Respondents whose investment plans are uncertain are not shown; respondents who answered "not familiar enough to say" or "don't know" are excluded.
[2]Really Simple Syndication.

Source: 2007 McKinsey Survey on Internet technologies

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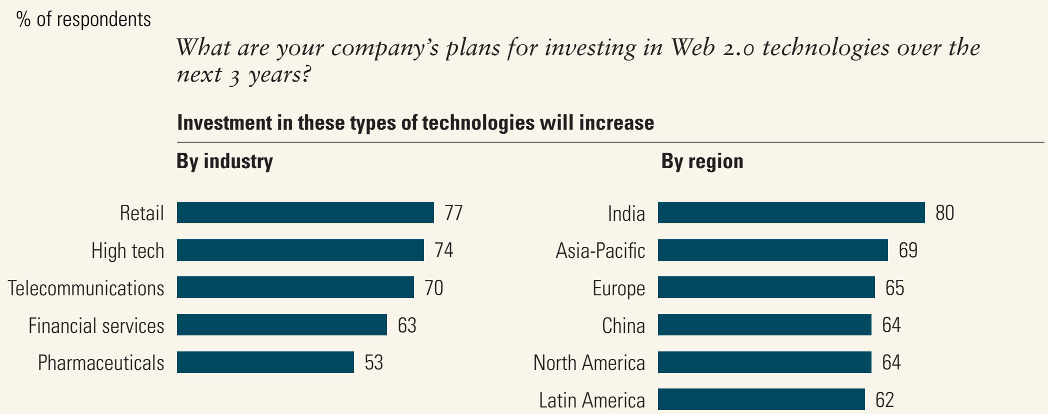
Executives from some industries and regions that were slow to invest during the past five years are poised to move more aggressively now. For example, retail executives, whose companies were more likely than the average company to invest cautiously in the past, now overwhelmingly say they will step up investment in Web 2.0 technologies in the coming years (Exhibit 4).

Exhibit 4

Interest is high in India



What's in Web 2.0

Blogs (short for Web logs) are online journals or diaries hosted on a Web site and often distributed to other sites or readers using RSS (see below).

Collective intelligence refers to any system that attempts to tap the expertise of a group rather than an individual to make decisions. Technologies that contribute to collective intelligence include collaborative publishing and common databases for sharing knowledge.

Mash-ups are aggregations of content from different online sources to create a new service. An example would be a program that pulls apartment listings from one site and displays them on a Google map to show where the apartments are located.

Peer-to-peer networking (sometimes called P2P) is a technique for efficiently sharing files (music, videos, or text) either over the Internet or within a closed set of users. Unlike the traditional method of storing a file on one machine—which can become a bottleneck if many people try to access it at once—P2P distributes files across many machines, often those of the users themselves. Some systems retrieve files by gathering and assembling pieces of them from many machines.

Podcasts are audio or video recordings—a multimedia form of a blog or other content. They are often distributed through an aggregator, such as iTunes.

RSS (Really Simple Syndication) allows people to subscribe to online distributions of news, blogs, podcasts, or other information.

Social networking refers to systems that allow members of a specific site to learn about other members' skills, talents, knowledge, or preferences. Commercial examples include Facebook and LinkedIn. Some companies use these systems internally to help identify experts.

Web services are software systems that make it easier for different systems to communicate with one another automatically in order to pass information or conduct transactions. For example, a retailer and supplier might use Web services to communicate over the Internet and automatically update each other's inventory systems.

Wikis, such as Wikipedia, are systems for collaborative publishing. They allow many authors to contribute to an online document or discussion.

Source: 2007 McKinsey survey on Internet technologies

Similarly, while executives from China and Latin America typically say that their companies are late followers or had invested cautiously, they now plan to invest at the same rate or even faster than companies in Europe and North America. The level of investment in each of the Web 2.0 technologies cited in this survey varies across regions, with China being a fast adopter. The use of and plans for Web 2.0 technologies in general are well balanced globally (Exhibit 5), although some locations (such as India) stand out for their enthusiasm.

Exhibit 5

A choice of technologies

% of respondents using or planning to use Web 2.0 technologies

Low Medium High

	Asia-Pacific	China	Europe	India	Latin America	North America	Other developing markets
Blogs	25	20	26	29	23	32	19
Collective intelligence	32	37	35	33	31	30	35
Mash-ups	7	6	8	10	5	8	6
Peer-to-peer networks	43	50	38	39	43	37	39
RSS[1]	19	20	20	18	17	25	20
Social networks	22	36	30	29	28	27	29
Wikis	19	10	23	26	17	20	12

[1]Really Simple Syndication.

Source: 2007 McKinsey survey on Internet technologies

Why Web 2.0?

Executives say they are using Web 2.0 technologies to communicate with customers and business partners and to encourage collaboration inside the company (Exhibit 6). Seventy percent say they are using some combination of these technologies for communicating with their customers. For example, about one-fifth of them say they are using blogs to improve customer service or solicit customer feedback.

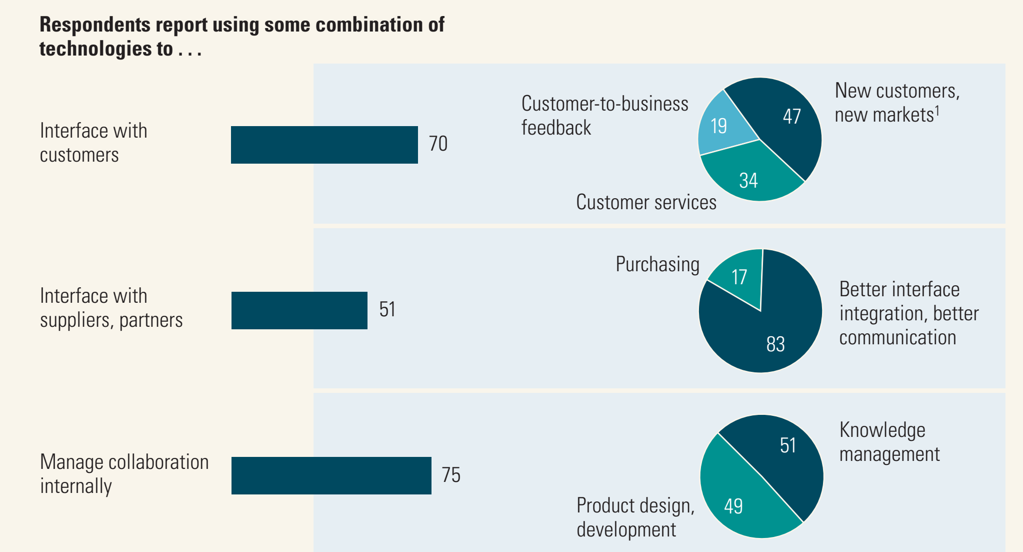
Respondents report that to communicate with business partners and, secondarily, to achieve tighter integration with suppliers, companies are using Web services, peer-to-peer networking, collective intelligence, RSS (Really Simple Syndication), and peer-to-peer networking.

Companies are using the same technologies to help manage knowledge internally. Just over half of respondents say they used one or more Web 2.0 technologies for that purpose. Just under half use these tools for designing and developing new products—for example, setting up systems to gather and share ideas.

Exhibit 6

How they use them

% of respondents who report using Web 2.0 technologies



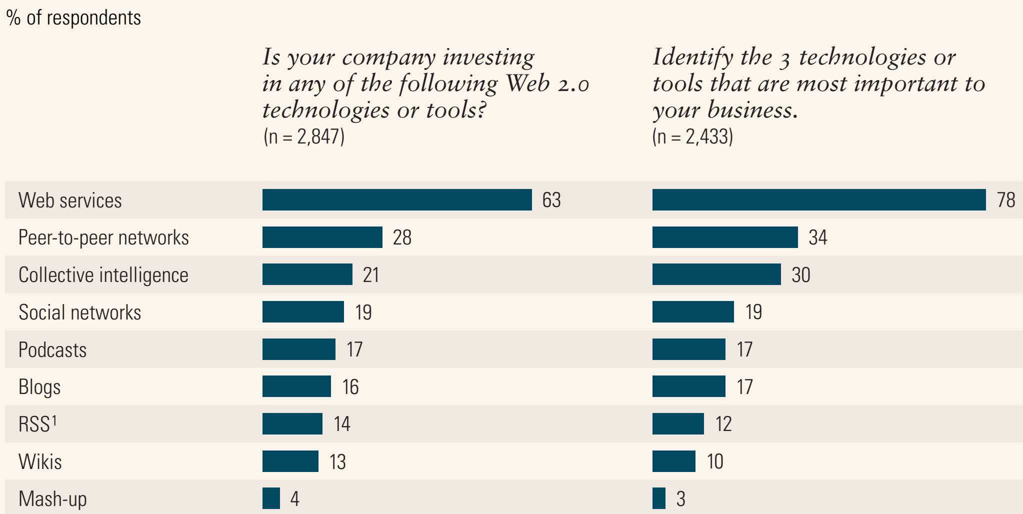
[1]Sum of responses for entering new markets and acquiring new customers in existing markets.

Source: 2007 McKinsey survey on Internet technologies

Finally, among the executives surveyed, technologies for automation and collaboration appear to be gaining more traction than some of the technologies that have received more attention in the press (Exhibit 7). Blogs, podcasts, and mash-ups trail technology trends that allow people to contribute knowledge to a common effort or allow machines to exchange information more easily.

Exhibit 7

Business relevance drives usage



[1]Really Simple Syndication.

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The contributors to the development and analysis of this survey include **Jacques Bughin,** a director in McKinsey's Brussels office, and **James Manyika,** a director in the San Francisco office.

Source: 2007 McKinsey survey on Internet technologies