The 24-hour digital day: iConsumer 2010

There was a time when computer-related activities were confined to certain areas of life (largely work), concerned only the most tech-savvy, and occupied discreet time slots during the day. Today, everyone has jumped on the digital bandwagon, leading to fundamental shifts in how we communicate, access information, purchase goods and services, and organize our social lives.

With the rise of digital and the rapid changes that it brings to the economy, McKinsey decided to invest in a uniquely deep and comprehensive survey. The research seeks to understand changing consumer behavior across digital experiences, spanning a dozen countries. The first edition of McKinsey's iConsumer survey was conducted in the US in 2008. The research has meanwhile evolved and now includes France, Germany, Italy, the Netherlands, Poland, Russia, Spain, and the UK, along with China and India.

Evident in the 2010 edition is the overarching theme of adoption speed and the pervasiveness of digital content and services across all consumer segments. These behavioral shifts will soon drive value shifts. Thus, telecoms, media, and technology players should likely invest heavily in consumer insights to shape and/or be well prepared for some of the industry changes that will inevitably result from some of these major shifts in consumer behavior. Here are some of the findings.

Communication redefined

Continued, steady, massive growth in social networks or inclusion of voice add-ons in other services are two key trends that are redefining how we communicate.

Take social networks: more than a third of the Internet users who participated in the research described social networks as an important or very important means of communicating with friends. The phenomenon is not only about its mass adoption, it is also about the time spent using it. In the UK for instance, social networking already represents 27 percent of Internet time. Even among the most traditional consumer segments, over 50 percent of users access a social networking site at least once a month – and 10 percent do so on a daily basis.

In the same way social networks are expanding into other categories such as gaming, voice is increasingly an add-on feature to other services. For example, half of the over 25 million active Xbox LIVE subscribers regularly use the embedded voice chat service – 47 percent of them use video chat regularly. In 2010, for the first time, less than a third of the time spent communicating was on traditional voice – landline and mobile combined.

Striking as it is, this is likely not an end state. With the expected adoption of social networks and other collaboration tools in the enterprise world, traditional voice will be even further dwarfed by new forms of communication. Of the companies surveyed, 17 percent already have an internal social network; several companies are thinking of suppressing e-mail and replacing it with new collaboration tools considered to be more effective.

The golden age of digital media

While social networking is perhaps the most remarkable example of consumer adoption of digital technology, other uses – media in particular – are gaining traction as well. Reading is merely one example. Be it newspapers, magazines, or books, a significant shift to digital content is apparent. Magazines show the most impact, with 17 percent of consumers saying they are turning less to printed content in only one year. Newspapers, however, are also hit with 11 percent of readers consuming more online compared to a year ago.

One further example of media gaining traction is over-the-top (OTT) video. Close to 50 percent of all users say they watch some form of video on the computer weekly. On average, 10 percent of users already watch OTT video on their TV. Such figures are likely to increase with 7 percent of all users intending to buy an Internet-connected TV in the next six months.

The drivers behind increased digital usage are the same for OTT video as they are for magazines and newspapers: consumers value the control and convenience that OTT services provide. Control and convenience are cited by iConsumer respondents as being among the top three reasons to watch OTT video, both on TV and on PC. In addition, new devices further enhance this control and convenience. With tablets, users can now comfortably browse the Internet or catch up on a favorite TV program whenever they want and truly wherever they want – in any room at home and even on the go.

Everyone goes digital – some just do it differently

In the most advanced European and US markets, our research has surfaced six different segments when it comes to digital behaviors: the Basic TV Viewer, the Audiophile, the Educated Reader, the Digital Beginner, the Technophile, and finally the Young Online Communicator. These segments represent the vast continuum of behavior apparent today. Young Online Communicators are one extreme, spending most of their time communicating via social networks, chat, videos or on blogs. Basic TV Viewers, in contrast, largely spend their media time watching linear TV.

Not only do individual segments differ regarding the time people in them spend engaged in digital activities, they also differ in what people in these segments do during the time spent. A large proportion (roughly a third) of users in three of our segments, for instance, use social networking platforms to make new friends. Educated Readers are particularly interesting in how they use social networks: mainly for research purposes – staying up to date on news, finding friends, doing research for work or school. They spend substantially less time staying in touch with friends.

Probably the most counterintuitive finding of this segmentation concerns e-commerce. The three segments that are the least advanced in terms of their media consumption volumes and usage diversity are the ones who buy the most online. Take the Educated Reader for example: in seven product categories, more than half of the segment buys most in that category online. This includes household appliances and mobile phones along with travel, music, books, etc. At the other end of the spectrum, the Technophiles and the Young Online Communicators still have some way to go before they make most of their purchases online.

The next billion digital consumers

In 2010, the emerging market Asia represented 38 percent of the world's 1,9 billion Internet users. By 2014, this continent is expected to account for 51 percent of the projected 3 billion users worldwide – an increase of 800 million users. Taken together, China and India alone should add 600 million Internet users by 2015.

What are the drivers behind such growth? Will new digital consumers show similar usage preferences? While many of the factors driving adoption are similar – including a decline in access price in those countries combined with a significant rise in purchase power – two important differences become apparent.

First, an important adoption driver in emerging markets is the latent demand for "utility" services. This includes e-education, e-health/m-health, and mobile financial services. In India, between 61 and 83 percent of consumers surveyed show very high interest in these services. Arguably, the innovation in these domains is taking place in these very countries, where the barriers to adoption are lower and the demand is stronger than in the more developed markets.

Second, leading Internet players face strong local competition in the emerging digital markets, in which national champions often prevail. For instance, Facebook is lagging behind both in Russia and China. In Russia, only 3 percent of users log on to Facebook as their primary social network destination, while three local sites enjoy widespread usage. In China, only local players are among the top five social networking sites.

In addition, we see no evidence that the trend might reverse. Over 70 percent of Russian users intend to spend more time on local sites, and only 7 percent intend to increase their time spent on international sites.

Significant value shifts expected

Changes in consumer behaviors signalled by this research will inevitably be profound. For telecoms, media, and technology (TMT) players, these will have far-reaching implications.

For telecoms operators. This study shows that social networks and voice chat are cannibalizing all other well-established means of communication across countries, including basic voice and e-mail. The immediate revenue impact is likely to be limited given the high penetration of "all-inclusive" packages. However, the longer-term impact on the brand and on the perceived service value might be higher, unless operators manage to back their brands with new service promises.

VoIP on mobile is likely to have greater impact for telcos. Users have experienced VoIP on fixed lines for a few years now – a familiarity that may facilitate the takeoff of VoIP on mobile. McKinsey research shows that the share of users willing to use VoIP on mobile is around 40 percent in Western Europe and close to 70 percent in Russia. Thus, this phenomenon will likely have significant impact on usage and price, requiring an important rebalancing of revenues toward data.

For media players. The pace of business model transformation is likely to accelerate for media players. A shift toward digital content, the attractiveness of social network sites for advertisers, and audience fragmentation could prove fatal for those not capable of deep reinvention. Simultaneously, the emergence of new business models – such as paid applications in app stores and infinite service innovations resulting from new technologies – create real growth opportunities. The players who can capture opportunities faster and exploit all the benefits from the new digital world have a unique chance of displacing competitors in a short time frame.

For pure Internet players. Adaptation will also prove necessary for this segment. The likely emergence of new champions in emerging countries could pose a threat to today's leading players over the medium term. Also: keeping today's customers loyal to a company's digital attributes means constantly questioning the offer. An example: pure online gamers who have not taken the leap into the realm of social network gaming could severely suffer in the near future.

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All players in the TMT space should closely monitor consumers and their behaviors within their domain and beyond. Detecting and understanding important trends early on and adapting value propositions accordingly is the key to remaining relevant in an environment that is changing faster than ever.

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