

## How companies are marketing online: **A McKinsey Global Survey**

A survey of marketers from around the world shows where online tools are most important, how they're being used, and on which ones companies plan to spend more.

*Web exclusive, September 2007*

**Throughout the brief history** of the Internet, expectations have run high for it to "change everything." A McKinsey survey of marketing executives from around the world shows that in marketing, things are starting to change: companies are moving online across the spectrum of marketing activities, from building awareness to after-sales service, and they see online tools as an important and effective component of their marketing strategies.<sup>1</sup> Executives also indicate, however, that they are making less frequent use of digital tools—from familiar ones such as e-mail and informational Web sites to new possibilities such as wikis and virtual worlds—than their importance would suggest. A lack of capabilities at companies and their marketing agencies is a critical reason, respondents say, along with often-cited concerns such as an absence of meaningful metrics.

Companies use the Web to reach customers throughout the decision-making process. In 2010 respondents expect a majority of their customers to discover new products or services online and a third to purchase goods there. A majority of the respondents also expect their companies to be getting 10 percent or more of their sales from online channels in 2010—twice as many companies as have hit that mark today. These expectations appear to be driving plans for future spending, at least in some areas.

In addition to established online tools such as e-mail, information-rich Web sites, and display advertising, survey respondents show a lot of interest in the interactive and collaborative technologies collectively known as Web 2.0<sup>2</sup> for advertising, product development, and customer service (see sidebar, "[What are emerging vehicles?](#)").

### **What are emerging vehicles?**

**Blogs** (short for Web logs) are online journals or diaries hosted on a Web site.

**Online games** include both games played on dedicated game consoles that can be networked and "massively multiplayer" games, which involve thousands of people who interact simultaneously through personal avatars in online worlds that exist independently of any single player's activity.

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

**Social networks** allow members of specific sites to learn about other members' skills, talents, knowledge, or preferences. Commercial examples include Facebook and MySpace. Some companies use such systems internally to help identify experts.

**Virtual worlds**, such as Second Life, are highly social, three-dimensional online environments shaped by users who interact with and receive instant feedback from other users through the use of avatars.

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

**Widgets** are programs that allow access from users' desktops to Web-based content.

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

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**Notes**

<sup>1</sup> In July 2007 McKinsey surveyed 410 marketing executives from public and private companies around the world, representing industries such as business services, energy, retail, technology, and telecommunications. We asked respondents about the frequency and effectiveness with which they applied Web-based, digital techniques to five core marketing functions: sales, service, advertising, product development, and pricing. We also asked about future plans for digital marketing, including where respondents anticipated spending more money in the future. All data are weighted by GDP of constituent countries to adjust for differences in response rates.

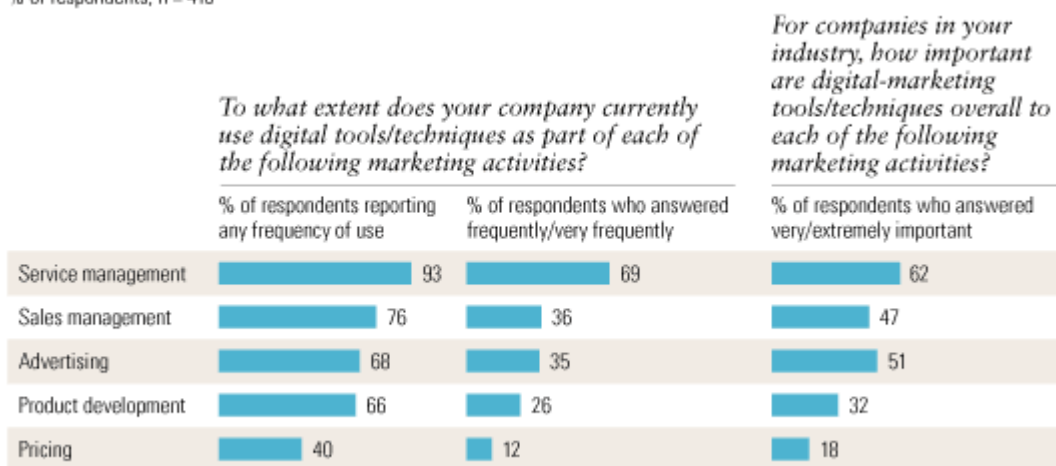
<sup>2</sup> Web 2.0 technologies, which rely on user collaboration, include Web services, peer-to-peer networking, blogs, podcasts, and online social networks.

**Large public companies are the most digital**

In four of the five major areas of marketing, a majority of executives—83 percent for service management and, even at the low end, 44 percent for pricing—say that online tools are at least somewhat important for companies in their industries. At least two-thirds of companies are using these tools in all the areas they deem most important.

However, far fewer are using them frequently; indeed, the number of respondents who say that their companies do so is generally significantly lower than the number who say that the use of these tools is very or extremely important (Exhibit 1).

% of respondents, n = 410



The importance of these tools naturally varies among industries—for instance, 65 percent of the respondents in high tech say that advertising online is very or extremely important for them, compared with just 39 percent in manufacturing. There are also two other likely reasons for the relatively low use of online tools: a lack of capabilities to manage them<sup>3</sup> and the fact that access to high-speed Internet connections (required for many of these tools) is uneven (just under half of Europeans have it, for example, compared with 59 percent of the US population).

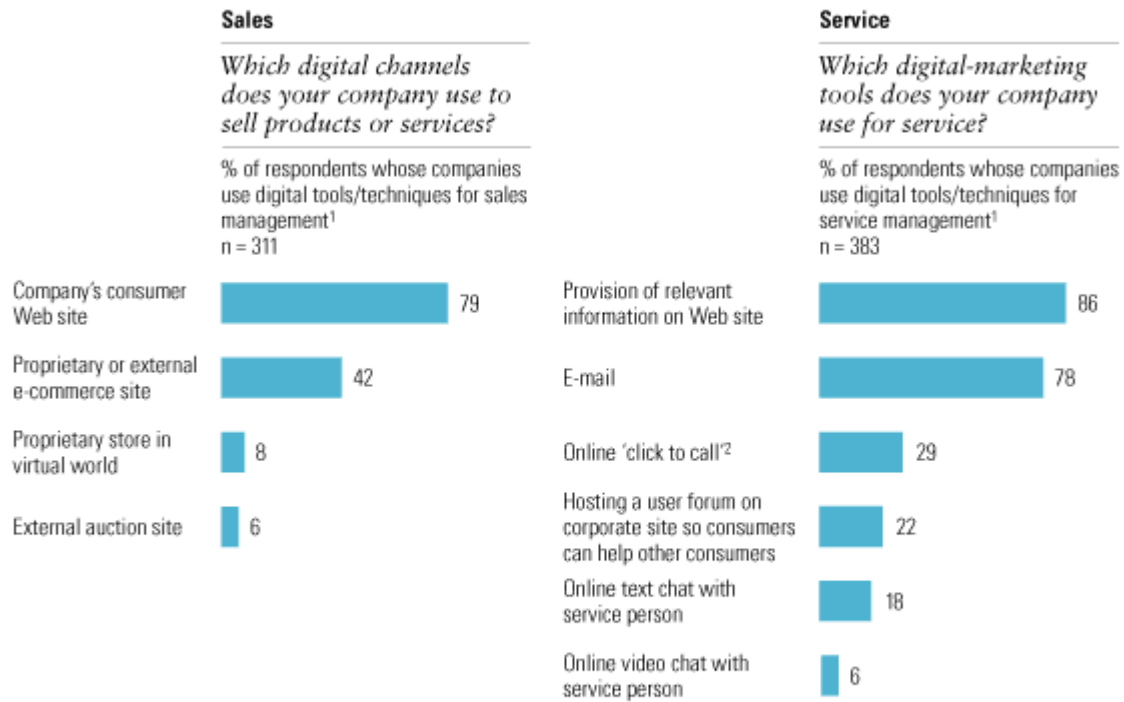
A large group of respondents say that their companies frequently use online tools for all five aspects of marketing. These companies—with almost half of all the respondents—are somewhat likelier to be headquartered in Europe than the panel average (despite the lower access to broadband there), somewhat likelier to be in the high-tech industry, and notably less likely to be in manufacturing. Frequent users are also much likelier to be public companies and to have annual revenues of \$30 billion or more. Not surprisingly, this group of respondents is also the likeliest to describe online tools as extremely important across the whole range of marketing activities and, often, to be using more sophisticated techniques than other companies do.

**Notes**

<sup>3</sup> In this survey, respondents rank insufficient capabilities, internally or at an agency, as a strong barrier to online advertising. Other McKinsey research has shown that executives also see low capabilities as a barrier to the use of many other online tools (see footnote 5).

## Service leads for now; pricing trails

Web-based sales and services were early uses of the Internet for marketing. Respondents say that some approaches to them—providing service information on Web sites, interacting with customers via e-mail, and executing transactions on company Web sites—are widely used (Exhibit 2). Most companies focus on their own Web sites for both sales and services, but some are experimenting much further afield: 15 percent of respondents in the high-tech industry, for example, say that they are experimenting with selling in virtual worlds.



<sup>1</sup> Respondents who answered "other" or "none of the above" are not shown.

<sup>2</sup> Link to request a telephone call from a service representative.

Companies that use digital tools frequently across the marketing spectrum are likelier than others to be using more complex tools for online services; 42 percent offer "click to call,"<sup>4</sup> and more than a quarter offer text chats with service personnel, compared with 18 percent of other companies in each case.

The flexibility and degree of personalization the Web offers would seem to make pricing another natural area for companies to move online. Nonetheless, companies have been slower to act there than in any other facet of marketing, and most don't think online tools are particularly important to pricing. More than a quarter say they are not at all important.

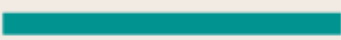

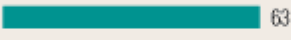





### Notes

<sup>4</sup> A feature that allows consumers to request that a company representative call them.

## Online ads: Many vehicles, less integration

Spending on digital advertising seems set to increase significantly. Today a third of the companies that advertise online are already spending more than 10 percent of their advertising budgets there. Three years from now, twice as many respondents believe they will be spending at least that much online, and 11 percent say they will be spending the majority of their budgets online.

Just over a third of survey respondents are frequent users of digital-advertising tools ranging from e-mail to blogs. The share of online spending currently allocated to each vehicle is roughly aligned with usage (Exhibit 3). Companies in the group that are frequent users of online marketing tools for the full range of marketing activities also use the full range of online advertising vehicles more actively: They are more likely to use each vehicle than companies that are less active online, and they are particularly likely to be making more use of video ads, branded sponsorships, blogs, and social networking.

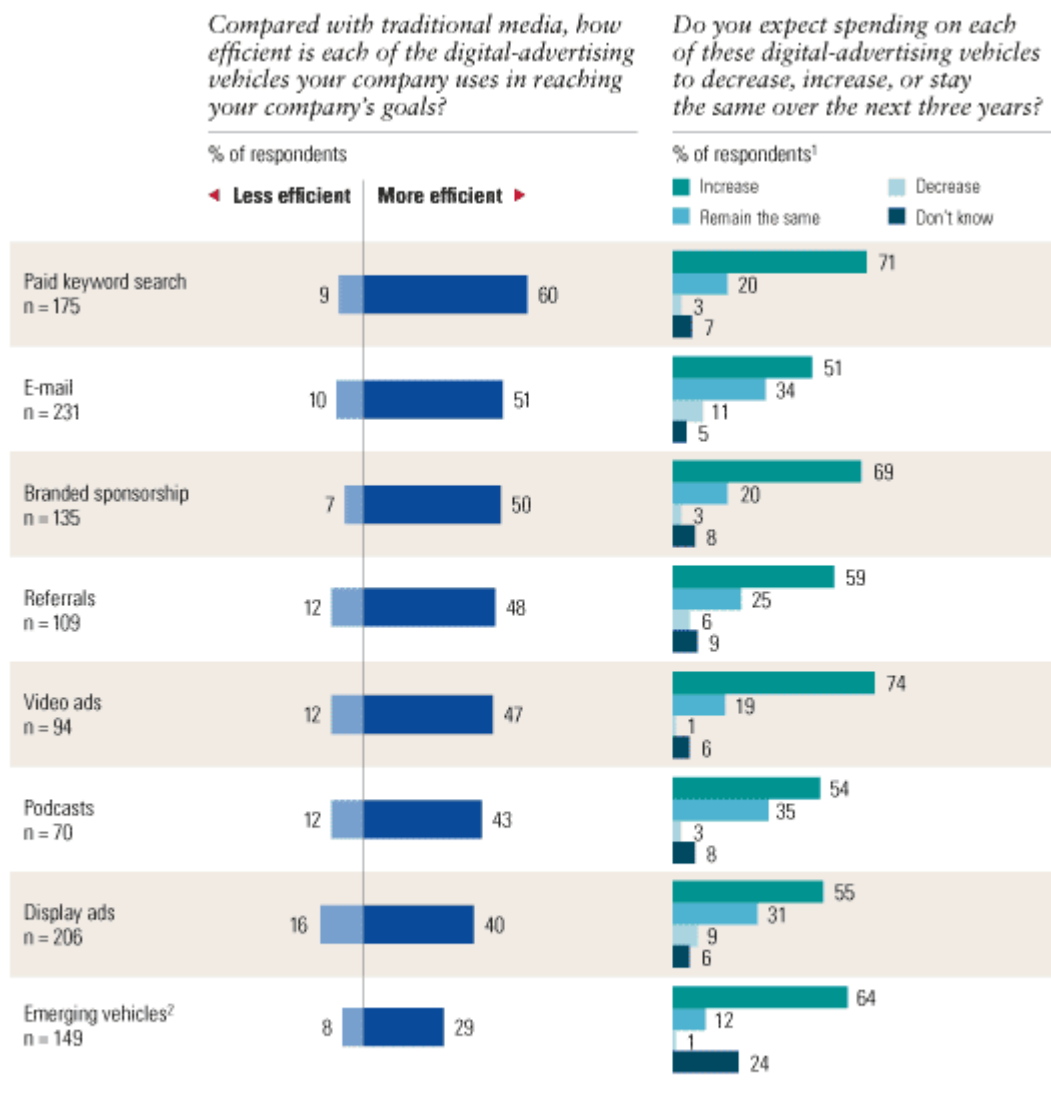
	<i>Which, if any, of the following digital-advertising vehicles does your company use?</i>	<i>How is your company's current spending on digital-advertising vehicles allocated?</i>
	% of respondents whose companies use given digital tool/technique <sup>1</sup>	Average of responses, % of digital-ad spending <sup>2</sup>
E-mail n = 231	 83	31
Display ads n = 206	 73	33
Paid keyword search n = 175	 63	30
Branded sponsorship n = 135	 48	25
Referrals n = 109	 39	18
Video ads n = 94	 33	16
Podcasts n = 70	 25	12
Emerging vehicles <sup>3</sup> n = 149	 12–32	14

<sup>1</sup> Respondents who answered "other" or "none of the above" are not shown.

<sup>2</sup> Base varies insignificantly; respondents reported using more than 1 emerging digital-advertising vehicle.

<sup>3</sup> Usage: blogs = 32%, social networks = 22%, wikis = 15%, widgets = 15%, virtual worlds = 13%, online games = 12%.

The majority of respondents find online vehicles more efficient than traditional media (Exhibit 4). Interestingly, search advertisements—considered to be the most efficient—rank only third in usage. However, respondents also say that they are likeliest to increase their spending on search and on video ads over the next three years, while display ads and e-mail are among the least likely vehicles to gain spending.



<sup>1</sup>Base varies insignificantly; respondents reported using more than 1 digital-advertising vehicle; figures may not sum to 100%, because of rounding.

<sup>2</sup>Blogs, online games, social networks, virtual worlds, widgets, wikis.

Roughly half of all respondents whose companies use online advertisements say that they run integrated online and offline campaigns. Companies that use online tools frequently for all marketing purposes are more than twice as likely to run integrated campaigns as are other companies—59 percent do so. As the use of digital tools grows, it seems likely that integration between online and offline campaigns will also increase.

**Online ads: Meeting many needs, hitting many barriers**

Marketers say that online tools help them meet their goals throughout the customer decision-making process, sometimes in ways that contravene the common wisdom about how these tools are best used. Search advertisements, for example, were developed to generate a direct response, but survey respondents say that the ads are almost equally useful in brand building. It's also clear that companies are experimenting: respondents describe such a wide variety of objectives for some vehicles that many companies still seem to be deciding which digital-marketing techniques are most effective for what purposes (Exhibit 5).

% of respondents whose companies use each digital tool/technique<sup>1</sup>

■ Top 4 digital-marketing tools used

*What marketing goal do you try to achieve with each of the following digital-marketing vehicles?*

	Brand building	Consideration	Direct response	Retention	Don't know
Overall	25	21	22	21	11
E-mail, n = 231	5	20	33	37	6
Paid keyword search, n = 175	27	29	29	7	8
Display ads, n = 206	36	18	27	10	9
Branded sponsorship, n = 135	55	11	7	24	4
Referrals, n = 109	13	28	27	22	11
Video ads, n = 94	33	30	17	12	8
Podcasts, n = 70	22	25	5	33	14
Emerging vehicles, n = 149	19	15	9	22	35

<sup>1</sup> Respondents reported using more than 1 digital-advertising vehicle; figures may not sum to 100%, because of rounding.

Although marketers expect to rely increasingly on digital-advertising vehicles, they recognize barriers that could slow the adoption of these tools. The lack of sufficient capabilities at companies or their agencies is the most significant concern, for both those that are advertising and those that aren't (Exhibit 6); among online advertisers, for example, about 60 percent of responses indicate that insufficient capabilities are a barrier. Even among respondents at companies that frequently use online tools for all marketing purposes, a full 50 percent of responses highlight capability barriers to advertising. Other McKinsey research shows that a lack of online capabilities extends far beyond the marketing department: 42 percent of the respondents to another global survey said that investing more in the capabilities of their companies would have made initial investments in Internet technologies more effective.<sup>5</sup>

*Which, if any, of the following barriers did your company have to address to use or to consider using digital-advertising vehicles?*

Type of barrier	Users	Nonusers
	% of respondents, n = 275 <sup>1</sup>	% of respondents, n = 116 <sup>1</sup>
Insufficient metrics to measure impact	52	39
Insufficient capabilities to handle internally	41	40
Hard time convincing management	33	32
Limited reach of digital tools	24	27
Insufficient capabilities at agency	18	9
Not enough high-quality inventory <sup>2</sup> available for purchase	12	4
Brand risk	11	7
Too labor intensive	9	7

<sup>1</sup> Respondents who answered "other," "none of the above," or "don't know" are not shown.

<sup>2</sup> Online space available for digital advertising within given time period.

Another frequently cited barrier—insufficient metrics to measure impact—is counterintuitive because the ease of measuring returns on investments is among the key selling points of vehicles such as paid search.<sup>6</sup> It's particularly notable that more than half of all current advertisers see insufficient metrics as a barrier—a proportion significantly higher than it is among nonadvertisers. On the other hand, it's also notable that some common fears, such as the idea that online advertising puts a company's brand at risk, do not seem to worry most respondents.

**Notes**

<sup>5</sup>"How businesses are using Web 2.0: A McKinsey Global Survey," *The McKinsey Quarterly*, Web exclusive, March 2007.

<sup>6</sup> For more about measuring returns on online investments, see Thomas D. French, "Confronting proliferation . . . in online media: An interview with Yahoo!'s senior marketer," *The McKinsey Quarterly*, Web exclusive, June 2007.

### **Collaborating with customers**

Collaborative tools such as blogs, wikis, and social networks are being used in advertising, product development, and customer service. At the simplest level, for instance, 22 percent of the respondents say that their companies host user forums for customers to help one another.

Just over a third of all survey respondents—and just over half of those whose companies advertise online—say that their companies use some kind of collaborative or interactive tool to advertise. About 22 percent are using these tools for customer retention, which fits into the common understanding that they help build relationships between customers and companies. More interestingly, nearly as many respondents, 19 percent, use collaborative tools primarily for brand building. The enthusiasm for experimenting with these tools is clear: more than a third of the respondents don't know what marketing objective their investments in collaboration and interactivity serve, yet some 15 percent of companies' online-advertising budgets go to such tools.

Some two-thirds of all survey respondents use online tools to involve their customers in product development; about a quarter do so frequently. The reasons vary notably by industry—respondents in both financial services and manufacturing, for example, focus on testing concepts and screening ideas, while those in high tech focus on generating new ideas.

Further, 31 percent of all the survey respondents are using collaborative product-development tools, such as initiating discussions in blogs to test ideas, involving customers in the use of collaborative design tools, or testing how well products sell in virtual worlds. Frequent users of digital tools for all marketing purposes are much likelier than others to exploit these collaborative product-development tools.

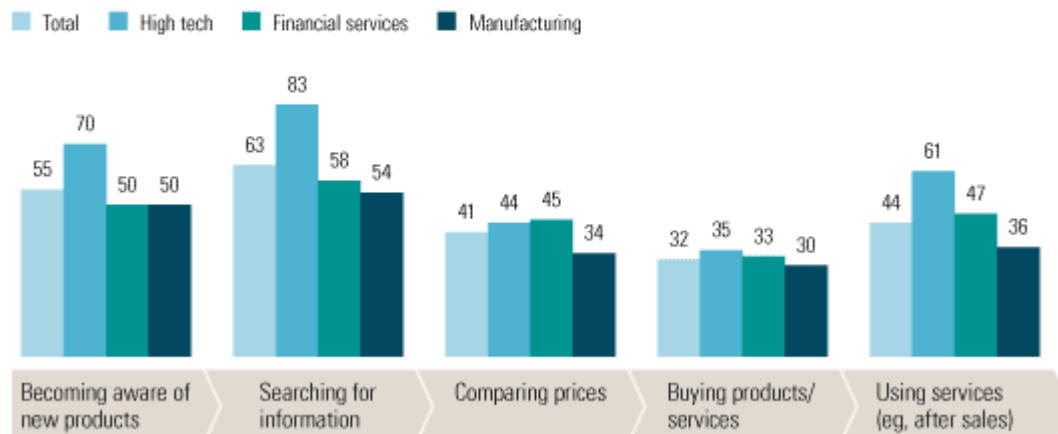
### **What customers will be doing online**

The evolution under way in digital marketing reflects fundamental changes in consumer behavior. Already, more and more people use the Web—instead of books, the yellow pages, libraries, car dealers, department stores, or real-estate agents—to search for information. In doing so, they often become aware of new products and compare prices.


How far will these shifts go? According to the marketing executives we surveyed, by 2010 the Web will play a role in the first two stages of the consumer decision-making process—product awareness and information gathering—for a sizable majority of all consumers, though with notable variations among industries (Exhibit 7). The expectation that most consumers will seek out new products online may be a factor in the plans of companies to increase spending significantly on several digital-advertising tools they see as most useful in building brands.

*3 years from now, what percentage of customers in your industry do you expect to be using digital tools/techniques for each of the following activities?*

Average of responses, % of usage, n = 410



A smaller proportion of customers, respondents expect, will use the Web to execute transactions or access services. Even so, 53 percent of all respondents expect that their companies will be making more than 10 percent of total sales through online channels three years from now, more than twice as many as do so today.

Further, some companies, particularly the most frequent users of the full range of online marketing tools, have already begun integrating their online and offline marketing efforts. Most, however, do not: only 42 percent run integrated campaigns, and 32 percent use online tools to influence offline sales. As online tools and techniques take on a larger role in marketing strategies, these numbers will likely grow, increasing the possibility of reaching the sizable number of online customers through successful efforts that could reap benefits offline as well. 

#### **About the Contributors**

The contributors wish to thank Nicole Baumüller for her significant role in the execution of this survey. Contributors to the development and analysis of this survey include **Jacques Bughin**, a director in McKinsey's Brussels office; **Christoph Erbenich**, a principal in the Frankfurt office; and **Amy Shenkan**, a consultant in the San Francisco office.

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