Turning buzz into gold

How pioneers create value from social media
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Note to the reader

McKinsey has conducted a survey about social media excellence among almost 200 German companies. Throughout this brochure, the hand symbol highlights results from this survey.
There is no strength in numbers, or so Uriah Heep would have us believe. But certainly, the power of the many helps to get noticed in this noisy world of ours. In the second half of the 20th century, both Christianity and Islam hit the mark of a billion followers. To date, only two national states have breached this barrier: China and India. In all probability, Facebook will be the next community to achieve that feat, with some 900 million monthly active users as of March 2012. Of course, an online social network is neither a church nor a country. But to many of its members, it might be a little bit of both.

Social media is big, and it’s growing faster than any other technology before. Broadcast radio took almost 40 years to reach an audience of 50 million, and TV still took more than a decade. Both Twitter and Facebook made it in less than a year (Exhibit 1), and Pinterest, currently the fastest-growing social media platform, may be the next to join their ranks. Every day, social network users spend more than 10 billion minutes on Facebook, watch 4 billion videos on YouTube, and send 340 million tweets. Day in, day out. But why should companies care? Because, much like other societies, social media have long transgressed the realm of interpersonal relationships and become a commercial force to be reckoned with.

The commercial potential of social media has been substantiated in several real-life cases. For example, using social media has helped generate sales increases of up to 16 percent, improve the efficiency of communication campaigns by up to 80 percent, and cut the cost of product development by up to 50 percent. These are merely a few of the many examples to come showing what social media pioneers have already achieved. At the same time, social media drive consumer empowerment through heightened levels of corporate accessibility, accountability, and responsiveness. In a recent survey, respondents said that hearing others talking about a company was among the top three reasons for them to buy from them. According to Nielsen’s Global Online Consumer Survey, more than two thirds of today’s consumers say they trust opinions stated online – second in trustworthiness only to recommendations from people they know in real life.
Online consumer advocacy can make, but it can also break corporate fortunes. If companies do not see to the buzz-worthiness of their brands and their offering, consumers will eventually walk away from their stores and their sites, taking their business to the places and players everybody is talking, and posting, about. In a recent case in the telecommunications industry, we have seen constant negative social media buzz nearly match the effects of a costly TV campaign. Of course, social media are neither a substitute for traditional channels, nor should they be construed primarily as a cost-saving device. But what follows provides overwhelming evidence that those who succeed in creating excitement on social platforms and building rapport with their followers will be rewarded in many ways.

Social media is more than meets the eye

At first sight, Facebook is to social media as Kellogg’s is to cereal. For all apparent intents and purposes, it defines the category. But upon closer inspection, it becomes clear that social media is more than meets the eye. Specifically, we believe that social media is more than Facebook, more than a consumer goods phenomenon, more than a marketing vehicle, and more than a breeding ground for bad news. It is as rich and manifold as most other forms of human interaction, it spans industries as diverse as healthcare, personal finance, and automotive, it often affects the entire value chain, and the potentially detrimental effect of sudden outbursts of negative buzz on business tends to be overrated.

More than Facebook

No doubt Facebook is the most popular and most prominent landmark in the realm of social media. With hundreds of millions of daily users, Facebook is second to none. Yet it is only the top dog in a rich and diverse habitat. Of course, there are other social networks, be they professional in nature, such as LinkedIn or Xing, catering to regional needs, such as China’s Qzone or Russia’s Vkontakte, or devoted to specific interests, such as sharing images on Flickr or Pinterest. Other popular social media applications include blogging and file sharing, with Tumblr, Twitter, and YouTube as some of the best-known players.

While the vast majority of users still focuses on getting in touch with friends from the past, media sharing and entertainment are similarly popular activities. Some 30 percent say they use social media to find music they like or search for videos. But social media users also read and create articles on Wikipedia. They connect with friends and strangers to play online games provided by Zynga or Gaia, and they review products or places on Amazon and Yelp (Exhibit 2). In fact, business-related social media activities are growing very quickly. In McKinsey’s recent proprietary iConsumer survey among social media users in the United States, 50 percent of all respondents said that business-related activities were especially important to them, including learning about products and services, making and receiving recommendations, and taking advantage of special deals.

Many companies have started to take advantage of the more widely known social media applications, e.g., by creating corporate profiles for their brands and companies
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Social media is more than meets the eye

in social networks. In Germany, 55 percent of the 200 companies that participated in our Social Media Excellence Survey (see text box page 11 for details) engage in social networks, but less than 10 percent use some of the lesser-known applications such as social commerce, social gaming, and monitoring. Thus, they miss out on evolving opportunities for direct as well as indirect value creation. As a result, less than one third of those participating in the survey were satisfied with their performance, and, to date, only one in ten has derived substantial P&L impact from social media.

More than a consumer goods phenomenon

Fashionists, hipsters, and geeks would have us believe that social media are all about designer outfits, vintage sneakers, and electronic gadgets. As an effect, social media are widely considered the dominion of branded consumer goods. In fact, some of the more obvious metrics such as the number of Facebook friends or Twitter followers may seem to confirm this perception, with Coke, Starbucks, Converse, Red Bull, McDonald’s, and Victoria’s Secret featuring prominently in the top ten, as reported by TechCrunch. Unsurprisingly, consumer goods companies use the attention they are getting to build their brands, advance their image, and tap the brains of their world-wide followership for open innovation, consumer co-creation, and fast-track market research.

Looking at social media activity levels by industry as reported in our survey, however, a different picture emerges. While companies from the consumer goods and retail sectors are indeed more active in some of the value chain steps, this difference is not substantial throughout. Moreover, some of the other value chain steps, especially human resources and internal applications, are more established in other industries such as finance, automotive, energy, and transportation (Exhibit 3).
More than a marketing vehicle

Not all that long ago, social media was perceived and promoted mainly as yet another communication channel. When media agencies talk about the distinction between paid, owned, and earned media, social networks almost always feature prominently as prototypical examples of earned media, implying that social media generate attention and exposure for brands and companies at no (direct) expense. Leading experts agree that social media have long outgrown more traditional “earned” exposure, such as editorial coverage on TV or in print publications. And there is really no disputing the reach and the relevance of social media in any major corporation’s media mix. Two thirds of all Internet users in Europe and the US are also social media users, and social media provide unparalleled opportunities for targeted, yet informal reputation building. In short, social media is indeed a formidable marketing vehicle, but it is so much more. Our work with clients, our Social Media Excellence Survey, and our independent research all indicate that social media is relevant along the entire value chain (Exhibit 4).

Product development. Not only manufacturers of consumer products use existing or customized social networks to generate innovation ideas, advance their product development, and gather feedback to shape both their future product generations and their new product ranges.

Marketing and brand building. Aside from paid online campaigns, such as display advertising on Facebook, social media can prove to be a powerful viral tool to generate attention, interest, and desire, especially among target groups with limited exposure to traditional media.
Sales. While social commerce may not (yet) be all that it’s cracked up to be, those who manage to turn online shopping into a truly social experience are reaping disproportionate rewards. Nevertheless, putting product catalogs on Facebook alone will not do the trick.

Service. Hundreds of companies are already using microblogging platforms such as Twitter as convenient service channels to gather customer feedback, provide out-bound updates, and prioritize aftersales issues as they arise.

External communications. Social media are increasingly important to preempt and manage external crises. Additionally, they help to continuously communicate company news and values.

Human resources. Social media provide a unique platform to promote a company’s attractiveness as an employer and interact with potential new hires. During the recruiting process, social media can enrich the experience as well as help reduce the cost of getting to know one another.

Internal applications. Large corporations often use social media applications not only to reach out to the general public, but also to streamline interactions between employees in different locations.

Because of the all-encompassing nature of social media, many activities will affect not only one, but multiple value chain steps simultaneously. An open consumer interaction portal, for example, may yield insights for future product development derived from user feedback, help build the brand through interactions of consumers with the
company, and promote the sales of products liked or recommended by dedicated consumers. Ideally, the community aspect of social media applications helps create widespread consumer advocacy above and beyond the immediate issue at hand.

More than a breeding ground for bad news

Obviously, companies have much to gain from social media across industries and business functions. Yet many of them fear exploring the social media universe, lest they create a platform that might give rise and amplify negative discussions, damaging the brand or the company. These skeptics see social media primarily as a mechanism that produces and amplifies bad news, blows insular issues out of proportion, and sets in motion downward spirals of negative buzz. Despite the grueling news stories about reputational damage spinning out of control – often dramatized as “social media shit storms” – none of the companies we looked at in our research actually suffered any significant or sustained impact on sales or stock price – provided they reacted swiftly and constructively to arising criticism. In fact, some companies managed to turn even negative attention into positive buzz, as the pages to follow will show.

Nevertheless, companies are well advised not to ignore negative buzz: on an ongoing basis, it can lead to actual long-term damage. To preempt vicious cycles of negative sentiment, leading players have created quick-response mechanisms. Typically, they are monitoring thousands of online conversations that deal with their brands and products. As soon as the sentiment expressed by social media users indicates imminent issues, social outreach teams will engage with online opinion leaders directly, often involving other departments required to resolve the issue at hand. One of the KPIs to watch closely in this context is the ratio of positive buzz to negative buzz. If this score drops below a predefined threshold, it is time to act.
Beyond the buzz: The Social Media Excellence Survey

In order to better understand the state of social media in Germany, McKinsey has surveyed almost 200 German companies on how they use social media, what it does for them, how they assess the potential of the topic in general, and how they rate their own performance. The companies surveyed represent a wide array of industries, including finance, high tech, automotive, transportation, consumer packaged goods, healthcare, and retail. The well-balanced distribution of survey participants across industries ensures that the survey provides a broad view of social media activities in German companies. While varying sizes of enterprises are covered, almost 60 percent of the companies in the sample generate more than one billion euros in annual revenues.

Majority of companies sees room for improvement

Over 70 percent agree that the importance of social media is growing, but only 5 percent of companies say they are entirely satisfied with their own performance compared with what they perceive as the full potential of social media. To reap the full benefits, German companies will need to widen their perspective, for example by expanding their efforts into additional areas. Survey participants said they employ social media on an average of only three out of seven value chain steps. Marketing is topping the list at 69 percent, while other value chain steps, like product development or human resources have been infused with social media by not even half of the companies in the survey sample. Human resources and internal applications receive the least attention; only about a third of the firms employ social media in these areas.

A more daring minority of respondents – about 27 percent of the sample – can be classified as social media pioneers. They use a wide range of social media applications, and when they do, they see above-average business impact. Typically, these pioneers have an average of two years of experience as social media practitioners, and almost half of them consider their capabilities to be highly sophisticated.

The social media pioneers

<table>
<thead>
<tr>
<th>Social media pioneers (27%)</th>
<th>Social media newcomers (41%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

Impact of social media activities

Breadth of social media activities

SOURCE: McKinsey Social Media Excellence Survey
In contrast, 41 percent of all respondents can be tagged as social media newcomers, who use social media in a limited scope and who experience less impact. They have an average track record of about a year and a comparatively low level of sophistication according to their own assessment (Exhibit 5).

How social media pioneers blaze the trail

According to our survey results, social media pioneers tend to take social media more seriously than their peers, and they have gone further in making it an integral part of their business, rather than treating it as just another marketing vehicle. More specifically, these pioneers are more S.O.C.I.A.L. than their peers in six crucial aspects (Exhibit 6).

**Strategy.** Pioneers have a comprehensive, company-wide social media strategy, and all functions and business units adhere to a uniform set of strategic directives.

**Organization.** Pioneers employ dedicated FTEs in different functions and set aside budgets specifically for social media activities.

**Criteria-based platform selection.** Pioneers select appropriate social media platforms based on clear criteria to match their social media strategy.

**Integration.** Pioneers integrate and leverage their social media activities along the entire value chain.

**Awareness.** Pioneers have created a significantly higher awareness for social media throughout their company than newcomers.

**Leadership.** Pioneers make social media activities a priority for top management and ensure senior executives are highly involved.

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**The hallmark of pioneers**

<table>
<thead>
<tr>
<th></th>
<th>Pioneers</th>
<th>Newcomers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td>Existence of comprehensive social media strategy</td>
<td>74%</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>Existence of dedicated social media FTEs</td>
<td>94%</td>
</tr>
<tr>
<td><strong>Criteria-based</strong></td>
<td>Criteria-based selection of appropriate platforms</td>
<td>72%</td>
</tr>
<tr>
<td><strong>Integration</strong></td>
<td>Value chain steps integrated with social media activity</td>
<td>5</td>
</tr>
<tr>
<td><strong>Awareness</strong></td>
<td>Social media seen as important topic company-wide</td>
<td>67%</td>
</tr>
<tr>
<td><strong>Leadership</strong></td>
<td>Top management involvement</td>
<td>63%</td>
</tr>
</tbody>
</table>

SOURCE: McKinsey Social Media Excellence Survey
As one would expect, pioneers are ahead of their peers in all respects. Their head start compared with newcomers is particularly dramatic when it comes to strategy and integration, warranting closer inspection of these areas. Pioneers have defined and detailed their strategy much more clearly than newcomers; they have specified tailored approaches for each social media platform and have aligned their traditional business processes much more systematically with their social media efforts. Moreover, pioneers empower their social media teams by providing them with specific social media guidelines (Exhibit 7).

Additionally, our survey shows that pioneers not only apply social media much more broadly throughout the value chain, they also emphasize specific value chain steps more explicitly than newcomers do. While marketing is the most commonly covered function for both groups (89 percent for pioneers and 53 percent for newcomers), the activity levels in the other value chain steps show different patterns: almost 75 percent of pioneers are active in external communications and sales, but less than half of them use social media for human resources or internal applications. Newcomers prioritize less clearly, spreading their attention more or less evenly across all value chain steps other than marketing. In other words, there does not seem to be a systematic pattern among the newcomers when it comes to selecting additional value chain steps for social media activities.
Social media leverage drives business performance

Pioneering social media efforts come at a price. It takes time, money, and dedication to build a prominent presence across value chain steps and social media applications: time to develop the right strategy, money to hire and train the right people, and dedication to establish a social media mindset in the organization, built on the crucial perception of social media as an opportunity rather than a threat. Laborious as it may sound, it’s worth it. Those who make the effort are often richly rewarded, both on average and on the level of individual companies, as exemplified by many cases of successful social media leverage that we have come across in our work, both as management consultants and business observers.

Corporate users of social media can create stunning impact with comparatively modest means, simply because social media effectively work as the world’s largest snowball system, instigating trickle-down effects that often exceed the initiator’s most optimistic expectations. As a rule of thumb, only 1 percent of all users create new content, 9 percent modify existing content, and 90 percent read and observe what is already there. This means that observed social media buzz is only the tip of the iceberg, its reach amplified manifold by those who merely amend and peruse. Some instructive best-practice case examples give a feel for what is at stake; see Exhibit 8 for an overview.

### Social media affect the entire value chain

<table>
<thead>
<tr>
<th>Value chain step</th>
<th>Case example</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development</td>
<td>Procter &amp; Gamble</td>
<td>• R&amp;D costs: -6% p.a.</td>
</tr>
<tr>
<td>Marketing</td>
<td>Old Spice</td>
<td>• Sales: +16%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Campaign costs: -80%</td>
</tr>
<tr>
<td>Sales</td>
<td>Ricardo.ch, Sellaround.net</td>
<td>• Transactions: +18,000 per month</td>
</tr>
<tr>
<td>Service</td>
<td>Example from telecommunications industry</td>
<td>• Resolved customer queries: +30%</td>
</tr>
<tr>
<td>External communication</td>
<td>McDonald’s</td>
<td>• Stock price: +5%</td>
</tr>
<tr>
<td>Human resources</td>
<td>Allianz, Bertelsmann, Henkel, McKinsey &amp; Company</td>
<td>• Reach: +20%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cost: -27%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Quality: +36%</td>
</tr>
<tr>
<td>Internal applications</td>
<td>Mountain Equipment Co-op</td>
<td>• Efficiency gains: &gt; 90%</td>
</tr>
</tbody>
</table>

### Exhibit 8

SOURCE: Press research; corporate Web sites; McKinsey

Product development: Efficiency gains through open innovation

Our survey shows that most companies are not yet taking full advantage of the wisdom of the crowd. Only 38 percent of all respondents say they have a well-established process to collect user feedback through social media, while 60 percent describe their feedback compilation efforts as manual and sporadic. In order to advance their social
media leverage by tapping the brains of the outside world, they may want to take inspiration from Procter & Gamble. A decade ago, CEO Bob McDonald initiated the company’s “Connect+Develop” program, declaring that 50 percent of all future product innovations should leverage external idea generation. As a key component of the program, P&G set up their own social platform to invite contributions and discussions from dedicated consumers, professionals, and other outsiders. Ideas are logged in the company’s “Eureka Catalog” on the corporate intranet, accessible to executives and R&D teams worldwide who gauge the business potential of submissions. One of the innovations that originated from the program was the Swiffer range of cleaning products, collectively contributing about a billion dollars in annual sales according to company information. Since the program was set up, P&G was able to reduce R&D expenditure by 6 percent per year. Over ten years, this amounts to savings of about USD 10 billion – without sacrificing market share or product range diversity. P&G was, in fact, the only company in its industry to decrease its R&D investment consistently over the period in question.

Other prominent examples of social media leverage for product development include Tchibo’s consumer co-creation platform, “Tchibo ideas,” and the world’s first co-created car, Fiat Mio. On Fiat’s Web site, users from 160 countries submitted more than 11,000 ideas, while Fiat designers acted more as project guardians than as actual creators, documenting the development process in Web blogs. The result of this unusual process is a two-seater urban car that has won several design awards.

Marketing: Exposure triggered by creative campaigning

Our survey confirms the widespread perception that the marketing function is the home turf of social media. However, the survey also shows that companies are still somewhat self-critical when it comes to relevant capabilities. With an average score of 2.9 on a scale from 1 to 5, the marketing function has the lowest social media capability rating of all value chain steps.

Old Spice, a personal care brand that has been on the market for the better part of a century, has shown that social media provide ample opportunity to come clean and make a fresh start in marketing. Despite some successes, Old Spice has always struggled to shed the image of being a brand for fathers and grandfathers. To rejuvenate its image and drive category sales, Old Spice launched a viral campaign for their deodorant and body care range on YouTube, Twitter, and Facebook, comprising several personalized video clips of a celebrity promoting the brand. The videos were an immediate hit, making Old Spice the most viewed sponsored YouTube channel and driving online buzz about the campaign to heights of up to 30,000 messages per month – beyond general buzz about the brand. The effects were massive: a one-time sales uplift of 16 percent (year on year, see Exhibit 9) and an increase in sustained sales growth by 10 percentage points, from 1 to 11 percent (2007 to 2011). Based on outside-in calculations, the campaign showed outstanding impact, with a sales uplift of more than USD 20 million triggered by a total campaign investment of about USD 1 million for two waves – about one fifth of average campaign cost.
Sales: Reinventing online shopping as a social experience

The jury is still out on social media not only as drivers, but as direct generators of sales (“social commerce”). The vast majority of our survey respondents engage in social commerce primarily by posting information or providing quotes. Only about 26 percent of the companies polled said they had actual sales transactions in social media. In keeping with these results, some prominent traditional retailers have opened social commerce sites on Facebook early on, but shut them down because of subcritical returns. At least the mixed results produced by these early efforts have taught companies that merely implementing their product catalogs on Facebook does not drive social commerce.

Levi’s is at the forefront of social commerce. According to web-strategist.com, they are offering an online store that is fully integrated with major social networks and providing a truly social shopping experience, such as shopping for (or with) a friend. Amex has gone even further with “Link, Like, Love,” a Facebook application that provides cardholders with offers that are unique to each user based on their “likes” and their friends’ “likes” on Facebook. Ricardo, a Swiss online auction platform, embraced social media by offering sellaround.net, an innovative social media app that generated an added 18,000 sales transactions per month.

Services: Responsiveness drives customer satisfaction

Only about a quarter of our survey respondents stated that they use social media as a channel to offer customer service. Among these companies, the majority at almost 70 percent have their service staff managing social media merely as a side activity, alongside their other tasks. But some companies find that fully dedicating parts of their service staff to social media actually has great potential to drive customer satisfaction. Take the example of a company from the telecommunications industry that started...
reaching out to its customers through social media, using the launch of the iPhone in 2009 as a pilot. The company began with a Twitter account, then added a corresponding Facebook presence a few months later. According to external company presentations, the share of resolved reach-outs handled through social media increased by more than 30 percent within the first nine months. When they last counted, about 50 percent of customers used Twitter and almost 40 percent used Facebook as a channel to reach out to the company. This company found out that one of the key factors for success when using social media channels was responsiveness. Social media users expect to receive a response within six hours on Twitter and within twelve hours on Facebook.

External communications: Building reputation at the eye of the storm

Almost 50 percent of our survey participants use social media for external communication purposes, making this the second-most popular value chain step for social media applications. While almost 90 percent of these respondents support their ongoing public relations through social media, less than a quarter leverage them as a vehicle to manage external crises. But in fact, social media can be a powerful tool to address and resolve upcoming issues that may turn serious if left unheeded.

Take the example of a malicious prank played on McDonald’s in 2011. One Saturday, someone posted a photo on Twitter, showing a hoax sign that indicated McDonald’s was charging African Americans an additional fee to offset the cost of armed robberies. The image went viral and the hash tag the prankster had chosen, #seriouslymcdonalds, quickly became a top-trending topic. But by reacting to the rumor immediately and decisively, McDonald’s managed to effectively turn this crisis into an opportunity to connect with online opinion leaders. Within hours of the original post, Rick Wion, the company’s Director for Social Media, replied to the post on Twitter. He said that the picture was fabricated and that diversity runs deep in McDonald’s culture “on both sides of the counter.” Additionally, Wion personally reached out to selected opinion leaders, asking them to let their followers know the picture was a hoax. McDonald’s continued to tweet over the subsequent 48 hours and responded individually to users who had voiced their concern. The number of people who believed the image was real quickly dwindled, and by Sunday evening it had become common knowledge that it was a hoax. When trading started on Monday, a 5 percent increase in stock prices indicated that McDonald’s had not suffered any real harm, thanks to its swift reaction.

HR: High quality of contacts originating from social networks

Around 92 percent of those companies in our social media excellence study, who say they leverage social media for HR purposes use it for recruiting, and 46 percent use it for employer branding. While some 38 percent maintain proprietary HR platforms, the vast majority focuses on sourcing and contacting potential hires through existing social networks. In their Gap Year 2012 program, German blue chips Allianz, Bertelsmann, Henkel, along with McKinsey collaborated to recruit BA level graduates for internships, prior to their enrollment for Master-level programs, through social media. They found that their social media campaign was a much more successful way of reaching the masses than, for example, other digital channels like banner advertising. Not only did social media offer a better reach, it also had lower cost per reach. Moreover, the quality of applicants, measured as invitations over total applications, was higher for social networks than for banners or career Web sites (Exhibit 10). Interestingly, the quality of applications generated through a single-purpose social
career network, such as eFellows.net, was much higher than those coming in over a general-purpose social network, such as Facebook.

**High impact of social media in recruiting campaign for the Gap Year 2012 program**

<table>
<thead>
<tr>
<th>Better reach (Bounce rate, Percent)</th>
<th>Lower cost (Cost per reach, EUR)</th>
<th>Higher quality (Share of quality applications, Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banner advertising</td>
<td>65</td>
<td>3.7</td>
</tr>
<tr>
<td>Social network</td>
<td>52 (-20%)</td>
<td>2.7 (-27%)</td>
</tr>
</tbody>
</table>

**Source:** McKinsey

Other successful users of social media for recruiting purposes include Unicredit, who posted a YouTube video to provide applicants with a glimpse of their future jobs and explain their corporate coaching culture. Unisys, a US-based IT company created official company profiles on various social media platforms and engaged users in IT-related online discussions to build their awareness of the company as a potential employer, thus effectively eliminating the company’s dependence on headhunters.

### Internal applications: The fast track to efficient collaboration

Using social media to enrich or streamline internal processes is, perhaps, one of the least established and most underestimated applications. Only 30 percent of German companies in our survey say they leverage social media internally. In this sub-sample, one in three companies has trouble creating even awareness; less than half of their employees know about the existing internal social media applications.

Mountain Equipment Co-op (MEC), a Canadian nonfood retailer, found it was well worth the effort to use social media technology to build their corporate community. Previously without an intranet, the company found they needed to overhaul internal communications and cultivate a more collaborative corporate culture to balance the centrifugal effects of the company’s rapid expansion in the mid-2000s. They set up Mondo, a central social platform convening all kinds of employee interaction, from the more mundane, such as scheduling and vacation planning, to the downright leisurely, such as the formation of forums and interest groups. Over the course of just one year, 85 percent of all employees became daily users, creating more than 25,000 pages on Mondo. As a pleasant side effect, the stock replenishment and inventory management
functionality integrated with the platform led to efficiency gains of more than 90 percent, both centrally and in the company’s 15 stores, freeing up hours of valuable time for shopper interaction and team building.

In similar spirit, but on a much larger scale, BASF, the chemical company, uses an internal social tool, connect.BASF, to increase the effectiveness of in-house collaboration, enabling employees to connect, share materials, discuss, and jointly work on major projects.

**Striking gold in social media**

There are several ways for those who aspire to create competitive advantages from social media to get going. If newcomers listen actively to relevant buzz, define a comprehensive social media strategy, integrate social media activities with their business, keep track of impact, and create a robust organizational setup, they will quickly find themselves turning buzz into gold (Exhibit 11).

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**The track to social media excellence**

Listen! – How to keep out of trouble by staying ahead of the buzz

A no-regrets move for almost all companies is to get a sense of their social media buzz – simply by tapping the conversations they are featuring in. To get ready, companies should use a monitoring tool and start tracking conversations on key platforms that are relevant to their industry and target audience. To graduate from passive to active listening, social media managers will want to work closely with corporate communications and develop contingency plans to ready themselves for the rare, but potentially damaging occurrences of massive negative buzz.
The basic elements of active listening, such as a monitoring tool and a small team of experts, are quickly and easily put in place. In fact, many companies will find that they already have quite a few social media enthusiasts on their staff. Given part-time assignment and some basic training, these individuals can form the kernel of an evolving social media team. Small as these steps may seem, they can still produce substantial effects. According to our survey results, however, only 29 percent of companies polled apply some sort of social media monitoring tools, and only about 12 percent of these claim to engage in full-fledged active listening. Active listening enables companies to detect relevant buzz early on – be it positive, neutral, or negative – to react swiftly to any brewing whirlwinds of damaging publicity, and to adapt their interaction style and tone of voice to the respective environment.

Social media monitoring tools, the eyes and ears of pioneers

Social media users are very generous when it comes to information on their likes and dislikes, their needs and preferences, and even their purchasing behavior. Within the boundaries of data protection acts and privacy regulation, social media offer rich opportunities for companies to gather insights about current and potential customers. Which company would not want to know about how often its brands, products, and services are mentioned in conversations, or about the attitudes and sentiments of those who mention them? Social media users leave a digital trace when they access information, make a purchase, or discuss the merits of a given product or service with their friends and peers. Services like NM Incite, a joint venture by Nielsen and McKinsey, help companies mine the depth of blogs, message boards, and social networks for relevant information. NM Incite combs social media for messages mentioning a brand, a product, or a company. Social media posts from more than 180 million sources are screened systematically and converted into meaningful metrics that can be used as input for multiple business functions including marketing, customer service, and product development.

Strategize! – How to prioritize social value creation opportunities

We have found that any sustained impact companies derive from social media activities is based on closely integrating social media with the general strategy. As many as 75 percent of social media pioneers in our survey say they indeed have a comprehensive social media strategy, and that this strategy is fully integrated with other business functions.

Of course, there is a no lack of proven tools and frameworks to shape and manage a company’s strategy, from defining a vision and setting targets to execution planning and success measurement. Nevertheless, there are certain aspects of strategy definition that are specific to social media, and we will focus on these aspects in the following. Key steps en route to a robust social media strategy include:

Step 1: Prioritize value chain steps. Companies need to identify which value chain steps hold the greatest potential for their social media applications. Usually, the company’s business model and its overall strategy will provide good guidance in this area. Service-driven enterprises, for example, may want to start by using microblogs as alternative or additional service channels. In contrast, those creating
value from the development of innovative products might choose to focus on social media as a source of idea generation.

**Step 2: Define audience.** Building on the prioritized value chain step(s), companies should specify the audience they wish to engage with using social media. Obviously, different outreach strategies apply depending on whether a company seeks to build relationships with intermediaries, excite consumers, or present themselves as an attractive employer to potential hires. Market research and buzz analysis will help gauge the engagement level, ideally differentiated by decision journey stages.

**Step 3: Select platform.** As a general rule, companies will want to go where their – current or potential – customers are. Furthermore, the selection of specific social media platforms and applications should reflect the overall purpose of a company’s social media activity. While a video-sharing platform may be appropriate to disseminate promotional videos and support a shift in brand image, open innovation processes will typically require more sophisticated interfaces. In our experience, most companies tend to limit themselves to existing platforms in their assessment. In some cases, however, custom-made, proprietary platforms will provide a better fit with the given business need.

Once value chain priorities, audience, and platform selection are in place, companies should start thinking about the appropriate interaction mode to match their strategic choice. Aspects to consider include tone of voice, update frequency, and contact offering. While one target group, such as B2B customers or potential hires, may expect a more formal tone, highly involved consumers may be put off by formality and thrive on a more casual style instead. While posting a viral clip on Youtube once every few months may be sufficient, Twitter followers tend to expect much shorter interactive cycles.

**Socialize! – How to social-media-enable business functions**

To gain traction, companies need to integrate their social media activities with the processes of the business functions they aim to serve and advance. The challenge is to balance the specific requirements of the given business function with the laws that govern the chosen social media applications and platforms. In our survey, we have found that embedding social media capabilities in functional operations is a key driver behind impact. Specifically, the company-wide recognition of social media as an important topic is highly correlated with above-average social media impact. Consequently, 67 percent of social media pioneers agree with the statement that “social media is seen as an important topic throughout the company,” compared with only 22 percent of newcomers.

Consider the following example on how to integrate social media into the marketing function and use it for brand health management. Successful players typically follow a three-step approach to make sure to capture the full benefits of social media:

**Step 1: Monitor.** Social media monitoring of the company’s own and key competitor brands, classified according to five questions inspired by the cornerstones of investigative journalism: Who is talking – customers or noncustomers? What are they talking about – a company’s brand, its products, or its service? Where are they talking – on Facebook, Twitter, or their own blog? When is the bulk of the buzz generated – prior to a given purchase, immediately after it, or at a later stage of the consumer decision journey? What is the sentiment of the messages – positive, neutral, or negative?
Step 2: Analyze. Once a sufficient set of monitoring data has been gathered, brand health managers typically plot the performance of their brand relative to its competitors to determine strengths and weaknesses and to decide on actions. This proven technique works for social media just as well as it works for old-school market research, but it typically produces results in a fraction of the time a traditional survey would take.

Step 3: Synthesize. Companies should then refine their digital engagement strategy accordingly. In a given situation, a brand health manager may choose to exploit post-purchase discussions on Facebook that revolve around one of their brand’s core attributes. Alternatively, they may want to focus on following the worrying pre-purchase discussion thread on Twitter that questions whether the brand’s products provide good value for money. To leverage these findings fully, they should not only be used by the social media marketing team. Instead, they can provide valuable insights for further marketing functions as well as other areas such as product development and aftersales service.

Measure! – How to understand social media’s business impact

Impact measurement is top of mind for German companies when it comes to social media. Although the vast majority believes in its importance, most respondents struggle with getting it right. Less than one fifth of our survey respondents measure the ROI of their social media activities, and only 37 percent have performance indicators in place for the impact of social media on their marketing function, the most common value chain step. Even most social media pioneers say that they lack KPIs for many value chain steps with gaps particularly in HR and internal applications, for which only 9 percent of pioneers have KPIs.

But without impact measurement, it is exceedingly difficult to justify investments, refine the execution of specific activities, or compare social media activities with other commercial levers. Impact measurement is vital ammunition to make the case for social media in the board room, especially when other media with established KPIs and a track record of proven effectiveness are competing for the same funds. A comprehensive measurement rationale should consist of three levels of KPIs, addressing different types of questions.

Level 1: Basic scorecard. Establish a basic KPI system to measure reach, engagement, and sentiment of a company’s social media efforts for each platform. Take Twitter, for example. Reach can be measured by the number of site visits, unique visitors, and followers. Engagement per follower and engagement per tweet are established KPIs for engagement, while the share of positive vs. negative tweets indicates sentiment.

Level 2: Business case logic. Create business cases to assess the value of specific activities, like campaigns, or decisions, like platform choices. An example is the value of a Facebook fan. The calculation should recognize the average number of contacts generated through each fan, including indirect – viral – reach. To evaluate the monetary benefit, the reach can be multiplied by a value based on the price of generating a comparable contact through paid advertising.

Level 3: Social media GRPs. Establish a common currency to make social media comparable across platforms and to other channels, as well as to assess company performance relative to competitors. For want of an established metric, McKinsey has adapted the concept of gross rating points (GRPs) to the sphere of social media (see text box).
Social media GRPs

So far, there is no common currency that reduces the multitude of social media KPIs to a common denominator and makes them comparable across different social media platforms like Facebook, Twitter, or blogs. For traditional media, gross rating points (GRPs) fulfill this function by measuring the advertising intensity of a campaign as a whole. McKinsey has created an online analogy to this: social media GRPs, a metric that specifically measures a company’s performance in social media. This measure is based on the number and reach of company-related postings across social media platforms and serves as input into marketing mix models to determine the impact of social media on the company’s business performance. Various sources provide the necessary information, e.g., social media monitoring and panel data and platform-specific tools such as Facebook Insights. Compared to classic GRP data, social media GRP values have a critical additional dimension: sentiment. After all, social media postings can also contain negative comments, making it necessary to differentiate between negative, positive, and neutral social media GRPs.

A case example from the telecommunications industry illustrates the use of social media GRPs. This company garnered about 50 social media gross rating points per quarter, a level comparable to a small online advertising campaign. However, the negative buzz, mostly about low levels of customer service, far exceeded positive and neutral comments. Using these observations as input into marketing mix models, it became clear that the constant negative buzz had a significant damaging impact, reducing new customer acquisition by nearly 8 percent (Exhibit 12). This effect almost undid the number of customers gained by expensive TV advertising. Only through the combination of buzz intensity with reach and sentiment, i.e., the core of social GRPs, did the company understand the negative impact of its weak customer service and could react accordingly.

### Based on social media GRPs, marketing mix models evaluate the influence of social media on business results

**Customer acquisition drivers**

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<th>8.3</th>
<th>7.3</th>
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</table>

**SOURCE:** McKinsey

- In a telecommunications pilot study, constant negative buzz reduced customer acquisition by approximately 8%.
- Influence was comparable to multi-million investments in TV campaigns.
Organize! – How to balance control with traction

They say that impact is the product of concept quality and execution. It all starts with top management awareness and support. If the CEO believes that social media is just a passing fad, the chances for lower-level executives to create excitement in the organization are slim. If, on the other hand, the CEO is an avid blogger, it may be comparatively easy to put social media on the board’s agenda. A full two thirds of the social media pioneers in our survey say they have their top management involved in the topic, compared with less than a third of social media newcomers.

But of course top management support by itself is only a necessary, not a sufficient condition of successful execution – much the way staking a claim is not enough to strike gold. It also takes some digging on the miner’s part. To execute their social media strategies successfully, companies also need dedicated social media resources that a staggering 94 percent of pioneers report to employ.

As for organization, there is no silver bullet that will fit companies of all types and sizes. In our discussions with pioneers we have seen three viable organizational options (Exhibit 13): one central unit for social media activities across all functions, social media experts embedded in all relevant business functions, coordinated through a central team, or embedded experts in all relevant functions without central coordination. Social media pioneers as represented in our survey tend to favor the middle road of embedded teams with central coordination (48 percent) over a central team (31 percent) or stand-alone social media units in business functions without central coordination (21 percent).

Three basic organizational alternatives

Source: McKinsey
The Digital Factory

Since social media is still a relatively new topic for executives and employees alike, it takes dedicated efforts to raise awareness and build capabilities. In order to support companies in developing the necessary skills for successful digital marketing management, McKinsey founded the Digital Factory. The Digital Factory runs and operates an online wine shop that allows executives to experience digital marketing in a risk-free environment. It enables current and future e-marketers to gather hands-on experience in real-life digital marketing situations.

The marketing arsenal of the Digital Factory comprises all major online marketing vehicles like search engine marketing, display advertising, affiliate marketing, e-mail marketing, and social media. A typical briefing for a participant could read as follows: “Your objective is to increase awareness by x percent and generate EUR y in new sales. You have a budget of EUR 5,000. Spend your budget any way you like to reach your awareness and sales targets.” The Digital Factory is a real enterprise, running real campaigns, generating real clicks, serving real customers, stimulating real sales, supported by real experts – and everything happens in real time.

Monday morning checklist

Social media holds the potential to transform the way companies do business. These communication channels provide new opportunities to reach large numbers of highly involved individuals at low costs, to create deep and lasting connections with friends and followers, and to tap the brains of many to gather new ideas and obtain feedback. Not lastly, social media can help enrich and streamline an employer’s interaction with current, future, and former staff.

Social media pioneers have made a commitment to leverage social media across the value chain and are already seeing some of the benefits. How can those aspiring to follow in the footsteps of these pioneers get their show on the road? Here are five sets of questions to trigger the discussion in next Monday morning’s board meeting, following the five imperatives outlined above:

Listen! Are we on top of the buzz? Do we know how much users talk about us and which sentiments they are expressing? Are we ready to react to negative publicity?

Strategize! For which functions beyond marketing can we leverage social media? Which value chain steps should we focus on, and how can we tackle them?

Socialize! How can we enable our business functions to take advantage of social media? How can we integrate social media into existing business processes?

Measure! Do we have the KPIs to evaluate social media performance? Can we quantify the impact social media has on sales?

Organize! Who are the right people on our team to achieve social media excellence? Which capabilities do we need to add or build?
Authors

Frank Mattern is a Director and Managing Partner of McKinsey & Company in Germany.

Dr. Wolfgang Huhn is a Director in McKinsey’s Frankfurt office.

Dr. Jesko Perrey is a Director in McKinsey’s Düsseldorf office.

Karel Dörner is a Partner in McKinsey’s Munich office.

Dr. Johannes-Tobias Lorenz is a Partner in McKinsey’s Berlin office.

Dr. Dennis Spillecke is a Partner in McKinsey’s Cologne office.

Project team: Jochen Böringer, Dr. Diedrich Bremer, Dr. Britta Lietke, Dr. Lukas Michor, Dr. Nina Stambrau, Alexander von Fritsch

If you have any queries, please contact:

Kai Peter Rath
Phone: +49 (211) 136-4204
E-mail: kai_peter_rath@mckinsey.com