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**The Urgent Need  
For Companies to  
Adapt to Web 2.0  
*New Models of Online  
Consumer Behavior  
Demand Changes in  
Corporate Strategy***



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## EXECUTIVE SUMMARY

*Web 2.0 activity—that is, Internet usage that involves online collaboration, networking between individual users, and user-created content—is growing rapidly. Consumers no longer visit the Web to passively take in content; rather, they are actively creating content themselves. In this new era of interactivity, corporations must be aware of what is taking place on the Internet and in social media spaces like MySpace, Wikipedia, and Second Life, and must decide how to participate themselves. They must develop a strategy to address the threats posed by Web 2.0 and seize the opportunities it offers. In addition, they may need to change their business models to better fit the new online environment. Companies that ignore the growing trend of Web 2.0 usage do so at their own peril.*

### What is Web 2.0?

The term “Web 2.0” describes *online activities, sites, and applications* that allow individuals to interact in online communities, directly exchange information with one another, and create their own content online. It involves technologies such as—

- Blogging
- Wikis (i.e., websites such as Wikipedia that allow visitors to add, remove, edit, and change content, typically without the need for registration)
- Social networking sites such as MySpace, LinkedIn, and Classmates.com
- Virtual meeting places such as Second Life or FunkySexyCool
- Media sharing sites such as YouTube and Flickr
- Podcasting and videocasting.

Web 2.0 also describes *new ways in which people use the Web*, such as writing a blog rather than creating a

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static personal site; participating in social networking sites rather than sending emails to isolated colleagues; or accessing voice-over-Internet protocol (VoIP) rather than using landline phone services. In general, Web 2.0 sites are distinguished by the wide-scale harnessing of collective intelligence—such as that which goes into creating Wikipedia, the ubiquitous online encyclopedia—and the enlisting of virtual users as content co-developers.

In the Web 2.0 era, *users no longer go to the Web to just take in information; instead, they are actively creating the information* that's out there. Web 2.0 technologies have allowed individuals around the world to engage in direct dialogue with one another—and the new question for corporations is how they can be sure they're not left out of the conversation.

*In terms of sheer numbers, Web 2.0 usage is indeed revealing itself to be a mass phenomenon.*

The scale of Web 2.0 activity is astonishing. For example—

- Cyworld, a South Korean community website founded in 1999 and bought by SK Telecom in 2003, has 18 million registered users (representing one-third of the South Korean population) and daily revenues of more than \$300,000. Moreover, the site has a penetration of 90 percent among Korean users between 20 and 29.
- Second Life, a 3-D, Internet-based virtual world founded in 2003, in which users adopt alternate identities known as “avatars” and can buy and sell virtual real estate, has 1.4 million registered users and daily revenues of \$600,000.
- MySpace, a social networking site bought in 2005 by Rupert Murdoch's News Corporation for \$580 million, boasts 120 million users and a half-million new users added per week. The site recently signed a \$900 million contract with Google covering advertising for the next 4 years.
- YouTube, a site that hosts user-generated videos, was bought by Google in 2006 for \$1.65 billion in Google shares. The site has 100 million video clips downloaded per day and 65,000 video clips uploaded.
- Blogger, an application that allows individuals to create blogs—that is, online personal or opinion journals—was bought by Google in 2003 for undisclosed terms. At the time Blogger was purchased, it had 1.1 million registered users, with an estimated 200,000 actively running blogs.
- Flickr, an online photo management and sharing application bought by Yahoo in 2005, has 7 million page views per day.

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## ABOUT OUR STUDY

To understand the full scale of Web 2.0 activity and learn how it might affect consumer behavior, in 2006 Booz & Company conducted a first-of-its-kind study to investigate trends in Web 2.0 usage. The survey was designed to test a set of Booz & Company hypotheses related to social behavior and networking, usage of communication and Internet services, and customer expenditure.

As part of the study, 4,570 individuals in the Middle East, Germany, the United Kingdom, Brazil, and the United States were surveyed between August 2006 and January 2007. The Middle Eastern countries surveyed included Egypt, the United Arab Emirates (UAE), Bahrain, Kuwait, Qatar, and Saudi Arabia.

The community platform MySpace, the music download platform iTunes, and the communication technology instant messaging were used as case references to test consumer behavior in detail. The survey was conducted by Vocatus, a market research firm based in Germany, and the survey tool used was computer-aided Web interviewing (i.e., a Web-based survey), with an identical questionnaire given to every user.

The survey enabled Booz & Company to identify some major social and behavioral trends related to Web 2.0 usage—and it showed unequivocally that Web 2.0 usage is a growing phenomenon that has important effects on consumer behavior. The key findings from this study are described below, particularly as they relate to consumers in the Middle East.

# KEY FINDINGS

## Web 2.0 Is a Worldwide Phenomenon

In terms of sheer numbers, Web 2.0 usage is indeed revealing itself to be a mass phenomenon. Worldwide, 50 percent of individuals who use the Internet report that they use social media sites such as MySpace, Friendster, and Hi5—resulting in more than 420 million Web 2.0 users globally (*see Exhibit 1*).

Moreover, these individuals are not casual users. In the United States, for example, 71 percent of users report that they frequently visit social media sites (i.e., visit at least once a week). Seventy-three percent of users in Germany and 41 percent of users in the United Kingdom report the same.

Penetration of Web 2.0 sites in the Middle East is not yet as prevalent; only 15 percent of users in Arab countries report that they frequently visit Web 2.0 sites. Of the sites that Middle East users did report visiting

frequently, Amazon, Wikipedia, Hi5, and YouTube topped the list, followed sequentially by Mp3.com, MySpace, Blogger, and iTunes.

Another notable point is that Web 2.0 users, with increased access to laptops, mobile devices (such as Blackberries), and Internet cafes, are regularly using Web 2.0 platforms outside the home—demanding “anytime, anywhere” access to their favorite websites. For example, 40 percent of users worldwide and 40 percent of Middle East users report accessing MySpace from their laptop somewhere outside their home.

## Web 2.0 Usage is Prevalent Across Both Genders and All Age Groups

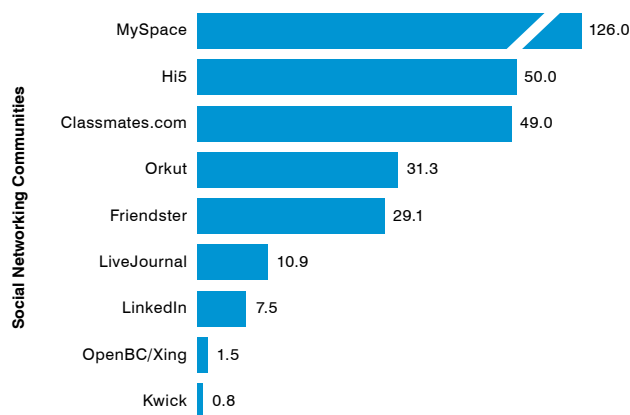
Contrary to popular belief, the phenomenon of Web 2.0 usage is not just a “young male” trend, the Booz & Company study found. Worldwide, people of all ages, both male and female, are using these sites.

### Exhibit 1

*Worldwide, 420 Million Consumers are Adopting Web 2.0 Activity And Visiting Web 2.0 Sites*

#### SELECTION OF SOCIAL NETWORKING WEB 2.0 WEBSITES

Users worldwide in million, October 2006  
(Top 10 social communities: >420 million users worldwide)



#### Other Web 2.0 Sites

YouTube  
Wikipedia  
Blogger

Sources: Company information; Booz & Company Web 2.0 research as of February 2007

In terms of gender, some of the most popular sites, such as Amazon, Wikipedia, MySpace, and YouTube, have a male-female ratio that is either 50-50 or only slightly trended toward male users.

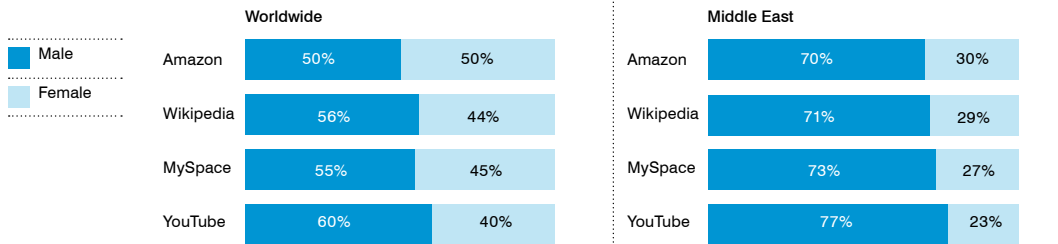
In terms of age, although newer sites still have predominantly young user communities (50 percent of MySpace users are under the age

of 25, for example), a significant proportion—24 percent—fall into the older 35 to 49 age bracket. And the more established the site, the more balanced the age group using it—25 percent of Amazon users are over the age of 50, for example. Over time, newer sites such as MySpace and YouTube are expected to see a similar adoption trend.

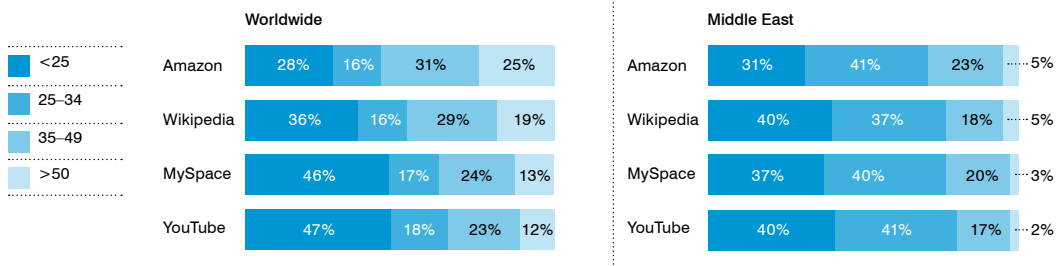
In contrast to these worldwide findings, Web 2.0 usage in the Middle East falls along more traditional lines. Usage continues to be dominated by younger males—even at very established sites such as Amazon (see Exhibit 2). However, this too is expected to evolve as sites become more established and their audience grows.

**Exhibit 2**  
*Web 2.0 Usage Crosses Gender and Age Lines Worldwide, but Remains Male Dominant and Young in the Middle East*

**USE OF WEBSITES BY GENDER**



**USE OF WEBSITES BY AGE GROUP**



Source: Booz & Company Web 2.0 research and analysis as of February 2007

### Web 2.0 Users Share and Participate, Without Privacy Concerns

One of the hallmarks of Web 2.0 is that users play the role not just of observers, but of active content creators. This survey confirmed that indeed, significant numbers of users are sharing content—as well as private information—online.

For example, of the MySpace users surveyed in this study, 78 percent in the United States, 70 percent in the United Kingdom, 51 percent in Germany—and 52 percent in the Middle East—report having created their own online content in recent weeks. “Creating content,” for Middle East users, means a variety of things: creating Web pages; writing personal blogs; uploading photos, music, or videos; and even participating in online gaming (see Exhibit 3).

Moreover, as users throughout the world are freely sharing content, *only a small proportion of them show significant concern about privacy and data protection*—and users in the Middle East show less concern than users in other countries.

For example, MySpace users in the United States report that they restrict 55 percent of the content they create to themselves and their friends, and make 45 percent available to the public. The United Kingdom shows similar numbers, but with only 39 percent of content being open to the public; and in Germany, users report opening only 29 percent of content to the public. In the Middle East, in contrast, MySpace users open 54 percent of their content to the public and limit only 46 percent to themselves and their friends.

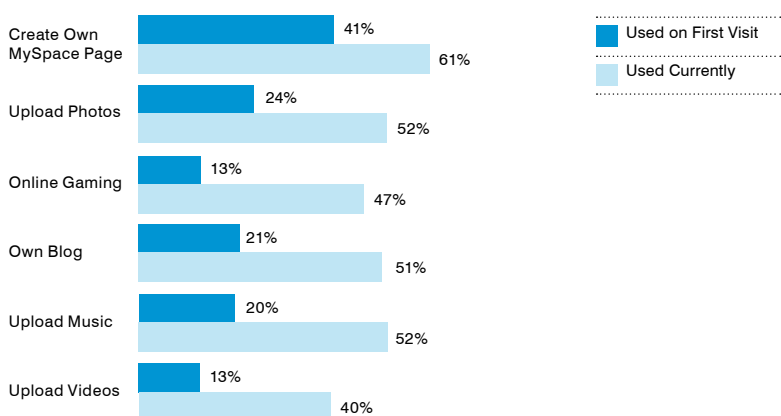
In the same vein, in the Middle East, a whopping 70 percent of MySpace users allow the messages they send back and forth to their colleagues to be viewed by the public—essentially, carrying on instant messaging conversations that can be read by anyone, anywhere in the world. Users in the rest of the world report surprisingly similar findings: 64 percent of U.S. users allow their MySpace messages to be read by the public, as do 61 percent of users in the United Kingdom and 73 percent of users in Germany.

### Web 2.0 Users Rely on Recommendations from Anonymous Peers

The Internet is increasingly seen as a reliable source of information, with users viewing the Internet as providing faster—and often more honest and unbiased—news

**Exhibit 3**  
*Web 2.0 Users in the Middle East Use Multiple Technologies for Creating Online Content*

**FUNCTIONS USED BY MIDDLE EAST MYSPACE USERS**  
(SELECTION OF PARTICIPATIVE INTERACTIVE SERVICES; MULTIPLE RESPONSES POSSIBLE)



Source: Booz & Company Web 2.0 research as of February 2007

and product information than do traditional media channels. Individuals not only use the Internet to gather third-party product recommendations and opinions, but also to seek recommendations on buying decisions from their social networks. And importantly, many seem just as prepared to take recommendations from unknown contacts as they are from friends or acquaintances.

The Booz & Company survey found that approximately 50 percent of Web 2.0 users worldwide are happy to use purchasing recommendations received from friends or acquaintances on

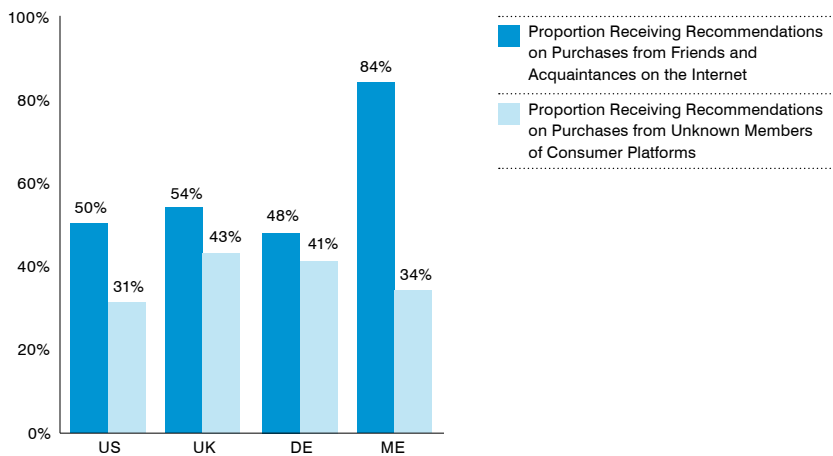
the Internet (see Exhibit 4). In the Middle East, the figure was remarkably higher—84 percent reported gathering purchasing recommendations online. Even more tellingly, many Web 2.0 users are also willing to use recommendations on purchases from unknown members of consumer platforms—around 40 percent of users worldwide, and 34 percent of users in the Middle East.

This willingness to seek out and accept recommendations from “online strangers” implies that individuals and online communities have increasing power to influence consumers’ buying decisions—and

not just for online products, but for all types of products. It also suggests that companies may need to radically reshape their traditional marketing approaches in response to this transfer of marketing power from corporations to individuals.

**Exhibit 4**  
*Virtual Communities in the Middle East Play a Crucial Role in Opinion-Forming and Offering Purchasing Advice*

**IMPACT ON BUYING DECISIONS**  
**(PROPORTION OF MYSPACE USERS RECEIVING RECOMMENDATIONS ON BUYING DECISIONS)**



Source: Booz & Company Web 2.0 Research (February 2007)

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## SUMMARY OF RESULTS

In summary, the results from the study show that the Internet is establishing itself ever-more strongly as an integral part of consumers' lives. Specifically—

- *Interactive and participative services are being used at increasing rates by all ages and both sexes across the globe.* Fifty percent of adults worldwide with Internet at home use Web 2.0 sites (15 percent in the Middle East), and hence operate in a community of over 420 million global users.
- *More and more individuals are using participative/interactive services on the Web,* creating their own content, publishing their own opinions, and networking directly with other individuals around the globe—indicating a shift away from traditional media channels. In the Middle East, 52 percent of MySpace users surveyed indicated that they had created new online content just in the past few weeks.
- *Control over privacy is not particularly important.* Users in the Middle East in particular show little concern for privacy: 54 percent

report opening content they write on the Web to the public, and a startling 70 percent allow the messages they send back and forth to their colleagues in MySpace to be viewed by the public.

- *Individuals are increasingly turning to online communities and blogs to help them make decisions about purchases—*whether or not they know the people making the product recommendations. In fact, over 80 percent of Middle East Internet users, almost 50 percent more than the international average, already take recommendations on purchasing from other users, one-third of which come from unfamiliar individuals. This trend gives a new meaning to the term “customer centrality.”

In looking at these new trends in consumer behavior, an important question arises—what do they mean for corporations?

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## ADAPTING TO THE WEB 2.0 MODEL OF CUSTOMER INTERACTION

The results from the survey tell us that Web 2.0 usage has already reached a critical mass, both in the Middle East and in other regions around the world. The good news is that although Web 2.0 usage creates distinct challenges for companies, it also offers new opportunities.

### Challenges

The challenges presented by Web 2.0's "democratization of markets" are real.

- *Complex consumer environment.* First off, the power of online social communities is creating a more complex consumer environment. Not only is there a greater availability of products and alternatives than ever before, but audiences are increasingly fragmented—limiting themselves to visiting niche areas online catered to their specific interests and demographic. This behavior presents challenges for marketers working in the old framework of "get a single message out to everyone, everywhere."
- *Public forum for customer complaints.* Second, customers with concerns about a company's products or services have a platform such as they've never had before for airing their complaints. In 2005, for example, a single blogger's complaint about Dell Computer's poor customer service set off a firestorm of negative publicity online about the company—negative publicity that was eventually picked up by traditional media outlets such as the BBC News and *The New York Times*.
- *Customers circumventing traditional sales and marketing.* Third, and in the same vein, the massive scale of online communities today is increasing the transparency of the sales and marketing process. For example, individuals trying to make a decision on new technology can now completely circumvent providers' websites and instead find information on consumer-facing sites like Engadget, a blog that reviews new technology and gadgets. Sites like Engadget allow consumers to learn how *other* consumers rate new technology—and dispense with collecting any information (and absorbing any advertising) from the technology provider itself.

- *Ad-funded companies disrupting markets.* Finally, new forms of Web 2.0 competition are disrupting markets, often as a result of their new revenue models. Ad-funded companies that offer “free” services to consumers, for example, create serious challenges for other companies offering the same services but that are not ad-funded. In addition, companies that are taking full advantage of Web 2.0 functionality to increase customer participation and engage customers online—creating increased customer loyalty and gaining deeper insight into customer preferences and

behaviors—pose a threat to companies that are not.

In essence, businesses that decline to participate in Web 2.0 will suffer significant challenges:

- Diminished customer loyalty, as consumers defect to companies that participate actively in Web 2.0 venues and use social communities to drive buying decisions and form positive product opinions
- Reduced online customer throughput, as customer traffic is channeled through social

networking sites rather than through a company’s website

- Lower customer acquisition and retention, as competitors do a better job of using online channels to win customers, including cross-selling their products on both Web 2.0 platforms and traditional media channels.

#### **Opportunities**

The advent of Web 2.0 does offer significant opportunities for companies to increase customer loyalty, increase operational efficiencies, and increase product success and time-to-market.

Companies that actively participate in Web 2.0 platforms and develop an understanding of evolving consumer behavior in the Web 2.0 environment can find opportunities in the following areas:

- *Product development.* Using Web 2.0 platforms, companies can perform easier, less expensive product research than ever before—partly because customers are already using online forums to describe exactly what they think about various companies’ products and services. Companies that make an effort to obtain

*The advent of Web 2.0 offers significant opportunities to increase customer loyalty, add operational efficiencies, heighten product success, and decrease time-to-market.*

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and analyze this data can gain an enhanced understanding of their customers' needs, preferences, and "pet peeves." This knowledge can lead to improved product development and shorter innovation cycles, which in turn can lead to increased predictability of product successes and campaigns.

- *Sales and marketing.* Web 2.0 sites provide new sales and marketing venues for companies—ones that are often already geared demographically to certain populations. For example, companies that want to target professionals may choose to advertise on LinkedIn, a business-oriented social networking site, whereas companies targeting the youth market may advertise on FunkySexyCool, a mobile-oriented social network run in cooperation with MTV. In addition, these new online sales and marketing channels compare very favorably to traditional channels in terms of cost.

- *Customer service.* Web 2.0 platforms offer companies the ability to create very interactive high-quality customer service sites that network together customers, staff, and suppliers. In addition, companies can create customer service sites moderated by full-time employees that encourages end-user created content and wide participation among users—enhancing consumers' customer service experience and building loyalty.

- *Branding.* There are increasing opportunities to brand companies on Web 2.0 sites, also at a much more favorable cost than through other media channels.

In short, Web 2.0 use is increasing and will continue to increase worldwide and in the Middle East, across both genders and all age groups. Unless businesses recognize and respond to the shifts in consumer behavior driven by Web 2.0, their customer acquisition and retention will likely suffer.

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## KEY QUESTIONS

As companies begin developing strategies for adapting their business models to the Web 2.0 environment, they should ask themselves key questions about their current business structure.

- Do we know what our customers are saying about us on the Web?
- Do we have a system in place for collecting what's being said? Are we analyzing that data and feeding it back into product development?
- Do we have a proactive method in place for responding to negative dialogue about our company on the Web? For responding to questions posed about our company?
- Do we offer our customers an opportunity to interact directly with our company online? For example, do we have a blog on our website where customers can share thoughts, concerns, and feedback?
- Do we allow customers to “review” our products online, much like Amazon.com lets its customers write book reviews online? Should we? If so, do we moderate those reviews in any way?
- Do we have an online forum where our “power users” or “biggest fans” can offer advice and how-to information to other consumers?
- Do we have a presence, such as a virtual storefront, in online communities like Second Life? Should we?
- Are we taking advantage of the various communities that exist on the Web and targeting our online marketing and sales at those communities that best match our target demographics?
- Are we making good use of cross-marketing opportunities (i.e., marketing television programs online and marketing online programs in television ads)?

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