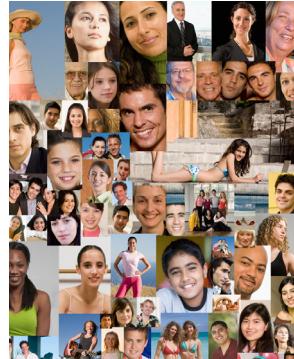


McKinsey Global Institute



November 2012

The social economy: Unlocking value and productivity through social technologies

Professional services

The McKinsey Global Institute

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Preface

The “social” phenomenon has swept through the popular culture in the past few years, as millions of people joined online communities and started using online social platforms. These IT-enabled communities have grown to more than 1.5 billion members globally. This growth indicates the almost primal appeal of social technologies, which bring the speed, scale, and economics of the Internet to social interactions. From sharing updates on Twitter to organizing support for political and social causes to forming entirely new types of communities that exist beyond the constraints of time, distance, or social group, consumers around the world have made social technologies a part of their lives.

In *The social economy: Unlocking value and productivity through social technologies* the McKinsey Global Institute (MGI) examined the economic impact of social technologies.¹ Five sectors were selected for closer focus: four commercial sectors – consumer packaged goods, consumer financial services, professional services, and advanced manufacturing – and the social sector as a whole. MGI now issues a follow-up to the larger report, separately presenting the findings for each focus sector, introduced by the uniform executive summary of the parent report. The present paper presents the findings for professional services.

For all the sectors, we looked into how social technologies are being used today and how they are likely to evolve in the coming years. We identified ten value-creating “levers” that can be used across the value chain, from product development through after-sale customer service. Importantly, we find that the use of social technologies to improve communication and collaboration within and across enterprises could contribute two-thirds of the \$900 billion to \$1.3 trillion in value that we estimate can be created across the four commercial sectors we study.

This level of value creation could have transformative impact across sectors and economies. But capturing this value will be a challenge for enterprises, primarily because they will have to transform their organizational structures, processes, and cultures to become “extended networked enterprises” that connect well internally as well as with customers and partners. For social technologies to deliver their potential economic benefits, enterprises must be open to information sharing and create cultures of trust and cooperation. They must also deal with significant risks to confidentiality, intellectual property, and reputation. Policy makers are confronted with similar challenges to ensure that personal and property rights are protected in online communities. On balance, we believe that the benefits are

¹ *The social economy: Unlocking value and productivity through social technologies*, by Michael Chui, James Manyika, Jacques Bughin, Richard Dobbs, Charles Roxburgh, Hugo Sarrazin, Geoffrey Sands, and Magdalena Westergren, McKinsey Global Institute, July 2012.

so compelling that over the coming years business leaders, policy makers, and individuals will find ways to meet these challenges.

James Manyika and Michael Chui led this project, working closely with Jacques Bughin, Richard Dobbs, Geoffrey Sands, and Hugo Sarrazin. Adam Bird and Charles Roxburgh also made valuable contributions. We are particularly indebted to our team leaders—Samantha Test, who helped shape the initial thinking; Magdalena Westergren, who managed the core research; and Britta Lietke, who supervised additional analyses and the writing of the final report. The project team included Rickard Carlsson, Joi Danielson, Milind Kopikare, Eliza Lehner, Philip Rogers, Monique Sischy, Jay Sung, and Paayal Vora. Geoffrey Lewis provided editorial support, and we thank the MGI production and communication staff: Marisa Carder, Julie Philpot, Gabriela Ramirez, and Rebeca Robboy.

We are grateful to our external advisers, Hal R. Varian, emeritus professor in the School of Information, the Haas School of Business, and the Department of Economics at the University of California at Berkeley; and Martin Baily, senior fellow in the Economic Studies Program and Bernard L. Schwartz Chair in Economic Policy Development at the Brookings Institution.

We also thank McKinsey directors and experts whose insight and guidance were critical to our work: Karel Dörner, David Edelman, Johannes-Tobias Lorenz, Johnson Sikes, and Marc Singer. Jaana Remes, a senior fellow at MGI, also provided valuable perspectives. McKinsey colleagues from several practice areas gave generously of their time and expertise to guide our sector analyses. We also acknowledge the McKinsey colleagues who contributed their knowledge of TMT (technology, media, and telecommunications) industries: Abhijit Dubey, Daniel Hui, Davis Lin, Loralei Osborn, Kevin Roche, Bonnie Shaw, Ari Silverman, Dan Singer, and Christopher Thomas. In addition, we thank the McKinsey colleagues who provided their insights about marketing and sales: Rishi Bhandari, Cindy Chiu, Stacey Haas, Brian Loh, Thomas Meyer, Rebecca Millman, Claire Pages, Vicki Smith, and Andris Umblījs.

This series of reports is part of our ongoing work about the impact of technology on the economy. Our goal is to provide the fact base and insights about important technological developments that will help business leaders and policy makers develop appropriate strategies and responses. As with all of MGI's work, we emphasize that this report has not been sponsored in any way by any business, government, or other institution.

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Social technologies today ...

>1.5 billion

Number of social networking users globally

80%

Proportion of total online users who interact with social networks regularly

70%

Proportion of companies using social technologies

90%

Proportion of companies using social technologies that report some business benefit from them

28 hours

Time each week spent by knowledge workers writing e-mails, searching for information, and collaborating internally

... and their untapped potential

**\$900 billion–
1.3 trillion**

Annual value that could be unlocked
by social technologies in four sectors

1/3 Share of consumer spending that
could be influenced by social shopping

2X Potential value from better enterprise
communication and collaboration compared
with other social technology benefits

3% Share of companies that derive substantial
benefit from social technologies across all
stakeholders: customers, employees, and
business partners

20–25%

Potential improvement
possible in knowledge
worker productivity

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The social economy: Unlocking value and productivity through social technologies

Seven years ago, most consumers logged on to the Internet to access e-mail, search the Web, and do some online shopping. Company Web sites functioned as vehicles for corporate communication, product promotion, customer service, and, in some cases, e-commerce. Relatively few people were members of online communities; social networking sites were for college students; chief marketing officers did not worry about how many online fans “liked” their company’s products.

While social technologies have swept through the popular culture and are being adopted across industries, we find that businesses have only just begun to understand how to create value with these new tools.¹ The research presented here attempts to quantify that value, which we find is potentially on a transformative scale (i.e., more than \$1 trillion annually) and can be realized across the value chain, not just in the consumer-facing applications that have been at the forefront of adoption. Most importantly, we find that social technologies, when used within and across enterprises, have the potential to raise the productivity of the high-skill knowledge workers that are critical to performance and growth in the 21st century by 20 to 25 percent.

Today, more than 1.5 billion people around the globe have an account on a social networking site, and almost one in five online hours is spent on social networks—increasingly via mobile devices. By 2011, 72 percent of companies surveyed reported using social technologies in their businesses and 90 percent of those users reported that they are seeing benefits.²

In just a few years, the use of social technologies has become a sweeping cultural, social, and economic phenomenon. Hundreds of millions of people have adopted new behaviors using social media—conducting social activities on the Internet, creating and joining virtual communities, organizing political activities. All the rituals and rites in which individuals and groups in society participate—from personal events such as weddings or daily gossip, to global happenings such as the Arab Spring—play out on social platforms. Indeed, many behaviors that sociologists study—forming, maintaining, and breaking social bonds—are now taking place online.

¹ In this report we define social technologies as IT products and services that enable the formation and operation of online communities, where participants have distributed access to content and distributed rights to create, add, and/or modify content.

² Jacques Bughin, Angela Hung Byers, and Michael Chui, “How social technologies are extending the organization,” *The McKinsey Quarterly*, November 2011.

Social technologies have literally changed how millions of people live. People rely on their online social connections—often including friends and associates they have never met in person—for everything from advice on what movie to watch to positive reinforcement for behavior modification (e.g., diet and weight loss). On social media, writers who have never been published and musicians who have never performed in public are now contributing to blogs and posting videos to YouTube. Social platforms have the potential to tap the great “cognitive surplus” of society by using leisure time for creating content and collaborating, rather than consuming.³

Businesses are changing their behaviors as well. In these few short years, social technology has evolved from simply another “new media” platform to an increasingly important business tool, with wide-ranging capabilities. Thousands of companies have found that social technologies can generate rich new forms of consumer insights—at lower cost and faster than conventional methods. Moreover, in addition to engaging consumers directly through social media, companies are watching what consumers do and say to one another on social platforms, which provides unfiltered feedback and behavioral data (e.g., do people who “like” this movie also “like” that brand of vodka?).

Companies are also enlisting social technology users to “crowdsource” product ideas and even to co-create new features. Social platforms have become a tool for managing procurement and logistics, allowing instant communication between different parties on B2B supply chains. Perhaps most intriguingly, companies are beginning to find that social technologies have enormous potential to raise the productivity of knowledge workers. Social technologies promise to extend the capabilities of such high-skill workers (who are increasingly in short supply) by streamlining communication and collaboration, lowering barriers between functional silos, and even redrawing the boundaries of the enterprise to bring in additional knowledge and expertise in “extended networked enterprises.”

In this report, the McKinsey Global Institute traces the growth of social technologies, examines the sources of their power, assesses their impact in several major sectors of the economy (including the social sector), and analyzes the ways in which social technologies create value. We also explore social technology risks and obstacles to adoption, as well as the enabling capabilities and conditions to create value using social technologies.

3 Clay Shirky, *Cognitive surplus: Creativity and generosity in a connected age* (New York: Penguin Press, 2010).

Among our key findings:

- The speed and scale of adoption of social technologies by consumers has exceeded that of previous technologies. Yet, consumers and companies are far from capturing the full potential impact of these technologies. Indeed, new uses, technical advances, and social business models will evolve—driven by user innovation and advances in technology. Almost any human interaction that can be conducted electronically can be made “social,” but only a fraction of the potential uses have been developed (e.g., content sharing, online socializing). Today, only 5 percent of all communications and content use in the United States takes place on social networks.
- Several distinct properties of social technologies make them uniquely powerful enablers of value creation. The most fundamental is to endow social interactions with the speed, scale, and economics of the Internet. Social technologies also provide a means for any participant to publish, share, and consume content within a group. They can also create a record of interactions and/or connections (a “social graph”) that can be used by consumers to manage their social connections and by others to analyze social influence. Finally, social technologies can “disintermediate” commercial relationships and upend traditional business models.
- Based on in-depth analysis of usage in sectors that represent almost 20 percent of global industry sales, we identify ten ways in which social technologies can create value across the value chain. Each industry’s specific characteristics determine which levers will be most impactful. Overall, we estimate that between \$900 billion and \$1.3 trillion in value can be unlocked through the use of social technologies in the sectors we examined.⁴ (This range represents the maximum value that could be created if all participants fully implemented social technologies—and complementary organizational changes—and if all time and money saved by social technologies were applied in the most productive ways).
- Two-thirds of the value creation opportunity afforded by social technologies lies in improving communications and collaboration within and across enterprises. By adopting these organizational technologies, we estimate that companies could raise the productivity of knowledge workers by 20 to 25 percent. However, realizing such gains will require significant transformations in management practices and organizational behavior. Social technologies can enable organizations to become fully networked enterprises—networked in both a technical and in a behavioral sense.
- Companies that rely heavily on consumer insights for product development and marketing purposes have an opportunity to create value by engaging with consumers on social media and monitoring social media conversations to generate consumer insights and market intelligence. Companies in the consumer packaged goods (CPG) sector, for example, have an opportunity to create value that is equivalent to between 15 and 30 percent of current

4 In this report, we use value to be synonymous with economic surplus, not net present value.

spending on these activities. This value is predicated not on use of social technologies alone, but on creative, thoughtful, and well-executed strategies that may incorporate other channels.

- Individuals and the communities they form will derive much of the benefits of social technologies. We estimate that today's free social technologies provided \$40 billion in consumer surplus in 2010, potentially rising to \$76 billion in 2015.⁵ Individuals will also capture additional consumer surplus (in the form of better products and lower prices) through the deeper customer insights generated by social technologies and the greater transparency that online communities provide. Finally, social technologies can empower individuals to form communities of interest around specific issues or causes, providing societal benefits.
- Giving social interactions Internet scale, speed, and economics carries risks. These risks include identity theft, loss of intellectual property, violations of privacy, abuse, and damage to reputations. Social technologies also can disrupt traditional business models.
- The benefits of social technologies will likely outweigh the risks for most companies. Organizations that fail to invest in understanding social technologies will be at greater risk of having their business models disrupted by social technologies.

Capturing the full potential value from the use of social technologies will require transformational changes in organizational structures, processes, and practices, as well as a culture compatible with sharing and openness. As with earlier waves of IT innovation, it could take years for the benefits to be fully realized, because these management innovations must accompany technological innovations. The greatest benefits will be realized by organizations that have or can develop open, non-hierarchical, knowledge-sharing cultures.

In this report, we define "social technologies" as the products and services that enable social interactions in the digital realm, and thus allow people to connect and interact virtually. These are information technologies that provide distributed rights to communicate, and add, modify, or consume content. We use the terms content and communications broadly. They include creating a message to be communicated (a tweet or a blog), adding content to what is already online, or adding information about content ("liking" a piece of content). Content creation also includes performing an action that an individual knows will be automatically shared (e.g., listening to a piece of music when you know your music choice will be displayed to others). Social technologies allow anyone within a group to access

5 See *Consumers driving the digital uptake: The economic value of online advertising-based services for consumers*, McKinsey & Company for IAB Europe, September 2010. The IAB Europe report estimates that social technologies account for almost 30 percent of consumer value derived from advertising-supported online services. These estimates do not include the benefits that will eventually accrue to consumers from the surplus created by businesses through social technologies, much of which will be passed on to consumers via lower prices or better products.

and consume content or information. They include technologies that also have been described as “social media,” “Web 2.0,” and “collaboration tools” (Exhibit 1).

Exhibit 1

Social technologies include a broad range of applications that can be used both by consumers and enterprises

NOT EXHAUSTIVE



1 Social analytics is the practice of measuring and analyzing interactions across social technology platforms to inform decisions.
SOURCE: McKinsey Global Institute analysis

Social technologies—the computer code and the services that enable online social interaction—are, essentially, the product of 40 years of technology evolution and the fulfillment of a long-held vision of what computers and digital technology could do. Indeed, from the time that computers moved from punch cards to communicating terminals, computer users have been finding ways to interact socially with one another. The earliest academic computer networks had bulletin board systems that allowed researchers to post information to be shared and to comment on each other’s content. When the Internet became available to members of the public, among the first commercial services were those that hosted interest groups (listservs). The Web’s growth in reach and capability, and as a medium for interaction, set the stage for the explosive growth of social technologies.

SOCIAL TECHNOLOGIES HAVE BEEN ADOPTED AT UNPRECEDENTED SPEED AND SCALE

Once the pieces were in place—and after some innovators and entrepreneurs designed the right formats and business models—social technologies took off with unprecedented speed and intensity. In fact, social technologies have been adopted at a faster rate than any other media technology. While it took commercial television 13 years to reach 50 million households and Internet service providers three years to sign their 50 millionth subscriber, it took Facebook just a year to hit 50 million users. It took Twitter nine months.

In May 2012, Facebook logged its 900 millionth user. It is estimated that 80 percent of the world's online population use social networks on a regular basis. In the United States, the share of total online time spent on social networking platforms more than doubled from January 2008 to January 2011, from 7 percent to 15 percent.⁶ Moreover, social technologies are replacing other Web applications and uses; use of e-mail and instant messaging are off sharply in the past few years.

This growth suggests social technology's almost primal appeal. It is fundamental human behavior to seek identity and "connectedness" through affiliations with other individuals and groups that share their characteristics, interests, or beliefs. Social technology taps into well known, basic sociological patterns and behaviors: sharing information with members of the family or community, telling stories, comparing experiences and social status with others, embracing stories by people with whom we desire to build relations, forming groups, and defining relationships to others.

Social technologies have given these basic behaviors the speed and scale of the Internet. At virtually zero marginal cost, people can interact with a very large group of people, across geographies and time zones. Social technologies have lowered the barriers for joining groups and making social connections; for example, people who do not know each other comment on one another's blog posts or forum contributions. Almost all forms of social interaction—including negative ones, such as bullying—are possible on social platforms.

Still, despite the rapid adoption of social technologies by businesses, there is far more opportunity ahead. In a McKinsey survey of executives at 4,200 companies around the world, 70 percent said that they were using social technology in some ways and 90 percent of those said they were seeing some degree of business benefits. Yet only 3 percent of companies could be identified as fully networked, meaning that they were achieving substantial benefits from use of these technologies across all parts of the organization and with customers and external partners.⁷ However, penetration and usage are far lower across the millions of small and medium-size enterprises (SMEs). Only 31 percent of American SMEs used social media in 2011.⁸

Another indication of how much more growth potential social technologies have is the relatively small, albeit fast-growing, share of total time spent on communication and content consumption that takes place on social platforms. Americans spend approximately 11 hours a day communicating or consuming messages in various ways, including in-person, watching TV, reading, and using e-mail. Today, the average American spends about 35 minutes (about 5 percent) of his or her total time interacting with content and communicating (which does not capture all messaging via social technologies). This compares with 60 minutes

⁶ ComScore Media Metrix, US, June 2007–May 2011.

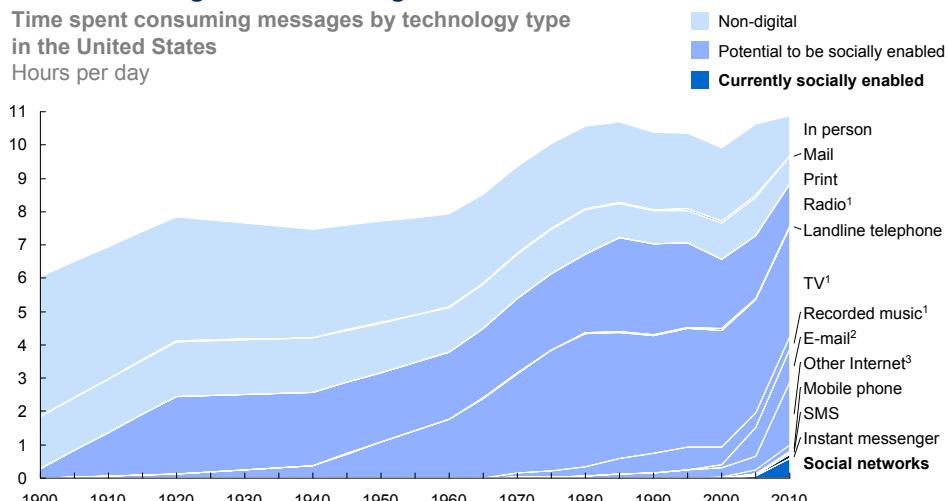
⁷ Jacques Bughin, Angela Hung Byers, and Michael Chui, "How social technologies are extending the organization," *The McKinsey Quarterly*, November 2011.

⁸ *The state of small business report: January 2011 survey of small business success*, Network Solutions LLC and Robert H. Smith School of Business at University of Maryland, 2011.

for e-mail and 14 minutes for telephone talking (Exhibit 2). Social media is already responsible for a large portion of growth in Internet use in the past years and is likely to take share from other forms of communication, such as print media and telephones. Interactive social features are also likely to become embedded in broadcast media (radio and television).

Exhibit 2

Social networking accounts for just 5 percent of the time spent communicating and consuming media



¹ Radio, TV, and recorded music are slightly discounted to account for the time spent using these concurrently with other media.

² Does not include e-mail sent internally within companies, which is not counted as Internet traffic.

³ Includes all social technologies that cannot be explicitly separated in available data.

SOURCE: Bureau of Labour Statistics; WAN-IFRA; Statistical Abstracts; National Bureau of Economic Research; US Census Bureau; Radicati Group; Yankee Group; Nielsen; ITU; eMarketer; and others; McKinsey Global Institute analysis

Social technologies also have more growth potential in how they are used by shoppers along the “consumer decision journey.”⁹ Today, relatively few consumers rely on information obtained through social technologies as they research, evaluate, and consider products to purchase. In the most active category, electronics, 16 percent of shoppers rely on social input for purchasing decisions; in home goods, only 2 percent of shoppers turn to online social communities for advice. We estimate that eventually up to one-third of consumer spending could be influenced by “social” interactions, which could mean that \$940 billion of annual consumption in some US and European categories could be influenced by social input.

As social applications migrate to mobile devices (e.g., smartphones and tablets), consumer uses of social technologies will continue to multiply. More than six billion mobile phones are in use worldwide, enabling consumers to socialize online wherever they go and inspiring a new range of social marketing applications. By September 2011, Facebook estimated that more than 40 percent of its users were already accessing its service with mobile devices.

⁹ David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, “The consumer decision journey,” *The McKinsey Quarterly*, June 2009.

SEVERAL DISTINCTIVE CHARACTERISTICS OF SOCIAL TECHNOLOGIES ENABLE VALUE CREATION

Social technologies have several distinctive properties that make them uniquely powerful and help explain their rapid adoption and high potential impact.

- “Social” is a feature, not a product. Social features can be applied to almost any technology that could involve interactions among people (e.g., the Internet, telephone, or television). A social component—a button to “like” or comment—can be added to virtually any IT-enabled interaction, suggesting an almost limitless range of applications.
- Social technologies enable social behaviors to take place online, endowing these interactions with the scale, speed, and disruptive economics of the Internet. Social interaction is a powerful way of efficiently organizing knowledge, culture, and economic and political power. Freed from the limitations of the physical world, people are able to use social technologies to connect across geographies and time zones and to multiply their influence beyond the numbers of people they could otherwise reach.
- Social technologies provide platforms for content creation, distribution, and consumption. At the same time, they enable new forms of content creation, including co-creation and transformation of personal and group communications into content (e.g., a blog posting can be a means to communicate immediate information, but also accessed later as a piece of content). Instead of a small number of editors or producers deciding what content is distributed, any social technology user can create, distribute, comment on, or add to content. Thus, social platforms can extend the “disintermediating” power of the Internet to the masses. For example, rather than relying on intermediaries such as talent agents or record producers to discover new musical artists, the online community chooses—by downloading songs or watching YouTube videos. These technologies change not only the economics of content creation and distribution, but also the nature of content itself, which becomes an evolving discussion, rather than a fixed product.¹⁰
- Social technologies can capture the structure and nature of interactions among individuals. A “social graph” provides a map of the personal connections of a person or a group, which, combined with other data, such as topics these individuals discuss, can be the basis for inferences about groups and individuals. Social graphs capture important information about which group members contribute most and have the greatest influence.
- Social technologies can be disruptive to existing power structures (corporate and governmental). Social technologies allow people to connect at a different scale and create a unified, powerful voice—as consumer groups or entire societies—that can have significant impact on the ways in which dialogues are shaped and policy is made.

¹⁰ See Don Tapscott and Anthony D. Williams, *Wikinomics: How Mass Collaboration Changes Everything*. (New York: Penguin Books, 2006).

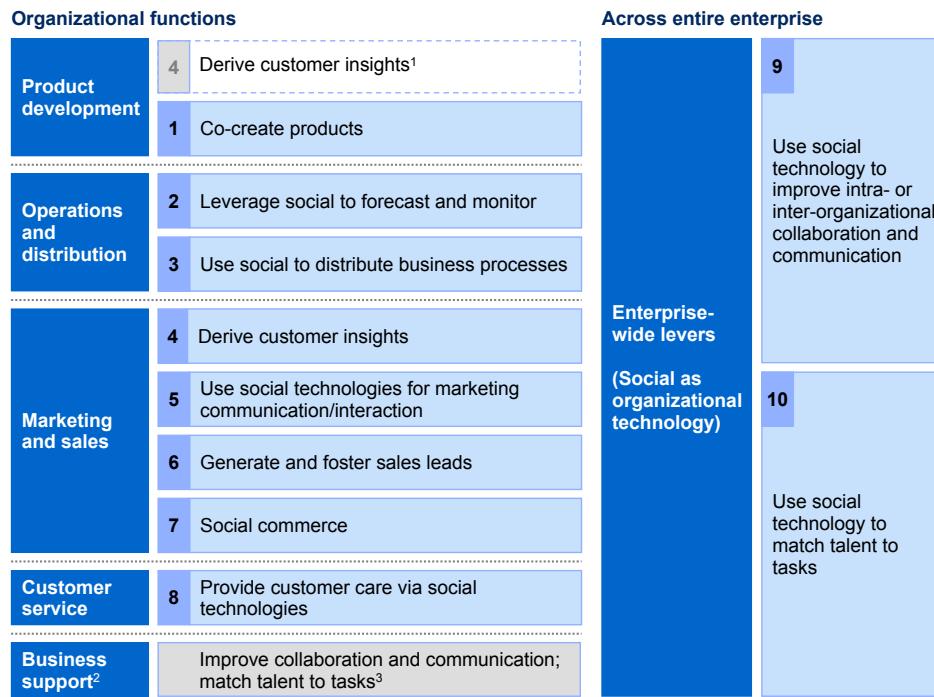
- Social technologies enable unique insights, by allowing marketers and product developers to engage directly with thousands of consumers and to monitor unprompted and unfiltered conversations. This can generate more genuine and timely insights into consumer preferences and trends. Social technologies also increase transparency—exposing more information about products and markets, and spreading information about organizations and institutions.

HOW VALUE IS CREATED IN DIFFERENT INDUSTRIES

We have identified ten value “levers,” or techniques, that enterprises use to generate value from social technologies. These tactics fall into four segments of the value chain: product development, operations and distribution, marketing and sales, and customer service. In addition, two enterprise-wide value levers create value by improving organizational productivity (Exhibit 3).

Exhibit 3

Ten ways social technologies can add value in organizational functions within and across enterprises



1 Deriving customer insights for product development is included in customer insights (lever 4) under marketing and sales.

2 Business support functions are corporate or administrative activities such as human resources or finance and accounting.

3 Levers 9 and 10 apply to business support functions as they do across the other functional value areas.

SOURCE: McKinsey Global Institute analysis

In the four industries that we have analyzed in detail (consumer packaged goods, consumer financial services, professional services, and advanced manufacturing), the estimated total annual value creation potential is \$900 billion to \$1.3 trillion. About \$345 billion of this value potential would be available from product development and operations; \$500 billion from marketing, sales and after-sales support activities; and \$230 billion from improvements in business support activities. The value contribution from improved communication, coordination, and collaboration—potentially two-thirds of all potential value from use of social technologies in business organizations—is embedded in these projections.

Individual firms can gain even more. In general, the companies that stand to benefit most have one or more of the following characteristics:

- A high percentage of knowledge workers
- Heavy reliance on brand recognition and consumer perception
- A need to maintain a strong reputation to build credibility and consumer trust
- A digital distribution method for products or services
- An experiential (hotels) or inspirational (a popular sports drink) product or service offering

We estimate that consumer goods companies, which have many knowledge workers and rely heavily on brand recognition, can use social technologies across all value chain steps. If they do so, we calculate that they can increase margins by as much as 60 percent, by using social technologies to connect with customers and to generate sharper consumer insights, as well as by using social technologies to improve the productivity of knowledge workers. Benefits of this range apply only to individual firms and not the entire industry, since they are based on initiatives that increase market share (at the expense of other players). And, it should be noted, simply shifting advertising and consumer insight budgets to social media will not suffice; in the past few years it has become clear that only well-planned and well-executed programs (often incorporating non-social components such as mass media) will capture the potential value of social technologies.

A considerable fraction of the \$900 billion to \$1.3 trillion value potential in these industries could be captured by consumers in the form of lower prices, higher quality products, offerings better suited to their needs, and improved customer service.¹¹ In addition, individuals will benefit from the participation of other individuals in their communities. For example, consumers will benefit from the ability to identify a group of like-minded people, to stay in touch with a network of people, or to access or reach out with a message or piece of content, at almost no cost.

¹¹ Other consumer benefits (e.g., increased customer satisfaction with better products and services) are not yet quantifiable.

The social sector, too, can benefit from social technologies. Nonprofit organizations and other social sector players can use social technologies to gather information, crowdsource labor and solutions, raise funds, expand their volunteer networks, build support, educate the public, engage supporters, improve collaboration and communication, and establish organizational structures.

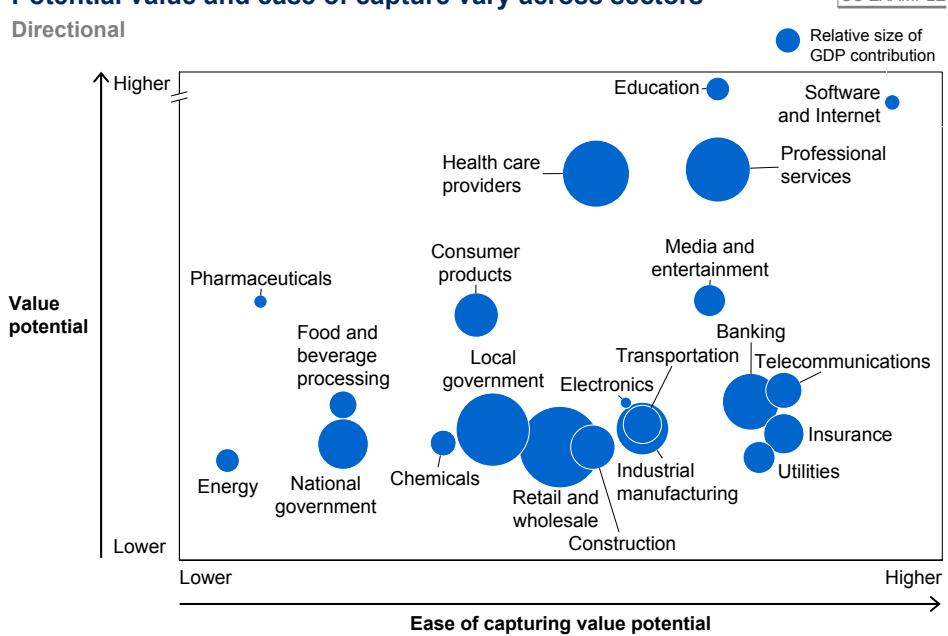
In broad terms, the value that social technologies can generate in an industry is determined by fundamental characteristics of the industry. Exhibit 4 illustrates how some characteristics, such as knowledge intensity, determine how much relative value potential an industry might have and how other characteristics, such as the need to protect proprietary information, influence how difficult capturing that value could be.

Exhibit 4

Potential value and ease of capture vary across sectors

US EXAMPLE

Directional



SOURCE: McKinsey Global Institute analysis

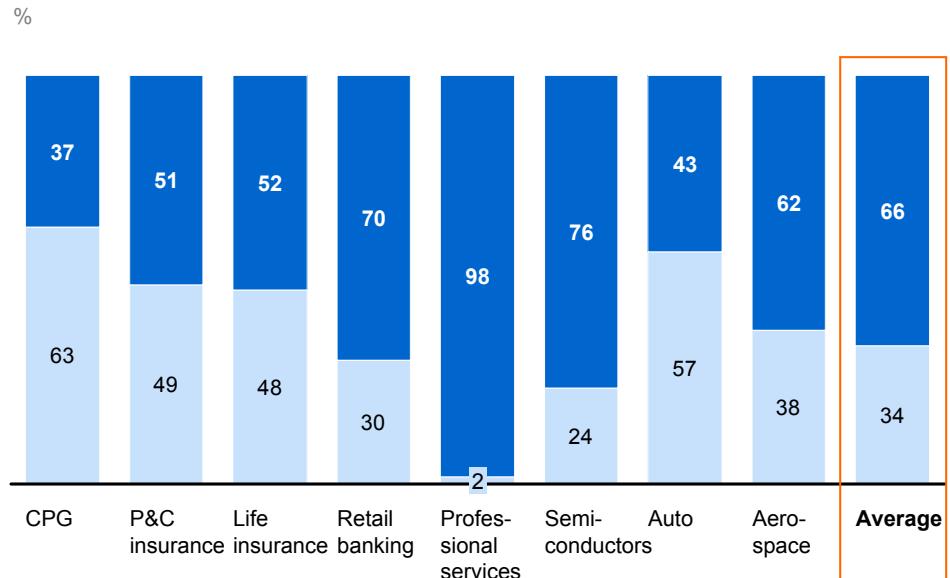
THE VALUE CREATION POTENTIAL WITHIN AND ACROSS ENTERPRISES IS LARGELY UNTAPPED

Our research indicates that there is great untapped potential for social technologies to improve communications and collaboration within and across enterprises. We estimate that social technologies can raise the productivity of interaction workers in large organizations by 20 to 25 percent if they become fully networked enterprises. Two-thirds of all of the value potential we estimated in four sectors relate to these enterprise applications (Exhibit 5). This assumes that social technologies are used by all interaction workers for all relevant activities and that the time that they save in communicating, finding information, and collaborating is then applied to highly productive uses. In most organizations, achieving these

conditions will require substantial changes in organizational structure, processes, practices, and culture.

Exhibit 5

Value available through collaboration and other benefits of social technologies varies across industries



SOURCE: McKinsey Global Institute analysis

Some of these gains are predicated on shifting communications among interaction workers from channels designed for one-to-one communication (e.g., e-mail, phone calls) to social channels, which are optimized for many-to-many communication. Today, a huge amount of relevant enterprise knowledge is locked up in e-mail inboxes. As more enterprise information becomes accessible and searchable, rather than locked up as “dark matter” in inboxes, workers could save not only the amount of time they spend on writing, reading, and answering e-mail, but also on the amount of time spent searching for content and expertise. We estimate that total e-mail use by interaction workers could be reduced by 25 percent, freeing up 7 to 8 percent of the workweek for more productive activities. With internal knowledge and information more available on social media, a typical interaction worker could reduce information searching time by as much as 35 percent, which would return approximately 6 percent of the workweek to other tasks.

However, these benefits cannot be obtained simply by installing social software. As with previous waves of productivity-enhancing IT, investment in the technologies has to be accompanied by management innovations to produce real gains. These innovations usually take years to demonstrate their full potential.

BENEFITS OF SOCIAL TECHNOLOGIES FOR INDIVIDUALS AND THEIR COMMUNITIES

Individuals are the first and most important beneficiaries of social technologies. Unless individuals receive value for using social technologies, they won't use these technologies, and none of the other forms of value can be created. People derive great personal satisfaction from the relationships they are able to maintain, the information they can glean, and the communities they form through their use of social technologies. Various studies have estimated that the economic value of this consumer surplus is significant. McKinsey and IAB Europe (Internet Advertising Bureau Europe) estimated the value of broadband services at approximately \$50 per year per household in consumer surplus in the United States and Europe in 2010. This is projected to grow to about \$253 billion in consumer value. The report estimates that social technologies account for almost 30 percent of that consumer value, or about \$40 billion in 2010 and as much as \$76 billion in 2015.¹²

A significant amount of the value unlocked by companies using social technologies eventually will accrue to consumers, either because market players compete away that surplus or because social technologies provide the insights that allow consumers to purchase goods that are better suited to their needs. When these better products increase total demand, both individuals and enterprises can capture value.

Social technologies, of course, also have the potential to provide individuals with significant non-economic benefits. As people multiply their abilities to organize themselves through social technologies, there is the possibility to effect positive change in communities and governments. Social technologies, for example, were an important enabler of the 2011 Arab Spring. Social technologies can also help communities collaborate in non-political ways, such as organizing disaster aid.

RISKS OF SOCIAL TECHNOLOGIES

The use of social technologies can also carry risks. One risk is the possibility of abuse, such as excessive employee time spent "chatting" about nonwork-related topics on internal or external social networks or using social media to attack fellow employees or management. Enterprises have taken different approaches to handling this risk, from forbidding nonwork-related conversations or censoring critical opinions to welcoming the critiques and engaging in public conversation with the critics.

Other risks involve breaches of consumer privacy, which could constrain a company's ability to develop the most revealing consumer insights. Similarly, there is a great need for information security, but a company's need to maintain data security can limit the ways in which social technologies can be applied. In addition, in many nations, censorship and restrictions on Internet use stand in the

¹² *Consumers driving the digital uptake: The economic value of online advertising-based services for consumers*, McKinsey & Company for IAB Europe, September 2010. This work measures social networks, social games, user-generated video sharing, wikis, and blogs. Values are based a USD/euro exchange rate as of April 30, 2010 (\$1 = 0.75208 €).

way of value creation by companies that hope to enable consumers to interact with them and that wish to harvest deep insights from social data.

CAPTURING THE VALUE OF SOCIAL TECHNOLOGIES

How much future value is generated by social technologies will depend on multiple enablers. Success in implementing and using social technologies in and across enterprises will depend on transforming their organizations and cultures to take full advantage of the collaborative potential of social technologies. Success in deploying social technologies to connect with broader communities will require the ability to create trust, a critical mass of participation, and positive community cultures and practices. Social technology is not just another IT implementation. Nor is it simply a tool to improve communication and collaboration. As has been seen in the consumer context, social technologies unleash creative forces among users and enable new relationships and group dynamics. Some of the most useful innovations in consumer social technologies—the hashtags to organize tweets and the standardized Wikipedia article format—were created by users. User innovations can drive the evolution of social technologies within and across enterprises, too, if the culture encourages them.



The real power of social technologies is only just beginning to be understood. That power stems from the innate appeal of interacting socially and the pleasure and intellectual stimulation that people derive from sharing what they know, expressing opinions, and learning what others know and think. As has been seen in early use of social technologies, when these ways of interacting are applied to commercial and professional activities (e.g., developing and selling products, working together to solve a business problem), the resulting value creation is impressive. Scaling these results to industry- and economy-wide levels produces very large numbers. For now, such figures are directional—they represent what could happen, if organizational and cultural barriers can be reduced and if risks can be mitigated. Over the coming years, it will become clear if those hurdles can be overcome.

How social technologies create value in professional services

While companies across industries have used social technologies in diverse and sometimes unique ways to create value, we also see that there are some general approaches that are proving to be productive across sectors. In this paper, we describe and quantify the potential value that can be created for businesses and consumers through ten levers that use social technologies across an organization's value chain. We also discuss the evolving business models used by providers of social technology products and services.

While the ten value levers we identify are used across industries, the ways in which they are applied and their relative importance vary a great deal across sectors and industries. In the five sector profiles covered in the larger report, we illustrate those variations, as we examine how social technologies are being adopted, which strategies are generating the greatest returns, and where opportunities for greater value creation lie. Overall, we find that in most sectors the use of social technologies is still in an early stage, and while we see some early examples of value capture, most organizations are at only the initial stages of exploiting this trend, particularly in the application of social technologies to internal operations.

To gauge the overall economic impact of social technology, we have examined four large business sectors (consumer packaged goods, consumer financial services, professional services, and advanced manufacturing) and the social sector (e.g., nonprofits, non-governmental organizations) to create a cross-section of the economy. These sectors include both product and service companies and companies that operate in B2B and B2C markets. This paper focuses on professional services.

SCOPE AND SIZE OF MARKET

The professional services industry includes accounting, advertising and marketing, architecture, management consulting, engineering, IT, legal, and scientific research services. Professional services globally generate annual sales in excess of \$3 trillion. They represent 7 to 8 percent of total service sector revenue in advanced economies, and about 3 percent of all revenue globally.

Professional services firms, more so than other businesses, are innately social organizations. They depend very heavily on social interactions—with clients and among professional colleagues—to carry out their work and develop new business. They rely on long-term relationships that are built on trust; traits such as intellectual leadership, integrity, and confidentiality are elements of the reputational brand promise that professional services firms rely on to retain clients and attract new ones. Within professional firms, encouraging effective

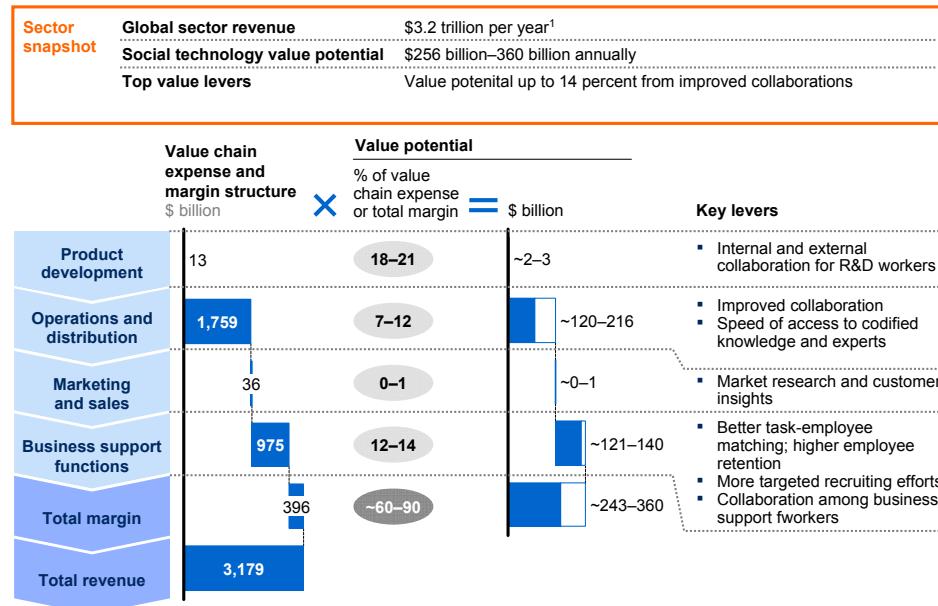
collaboration and building distinct organizational cultures are common aspirations. Furthermore, it is common for professional services staff to collaborate with colleagues and clients in different locations, which may be many time zones away. Specialized knowledge and expertise is often essential, and in many firms, professionals are expected to publish content, share knowledge internally, and build reputation externally.

All of these characteristics point to very large potential benefits from social technologies. From demonstrating knowledge and intellectual prowess through tweets, to recruiting via social sites, to mining social data for information to assist in litigation, professional services firms are finding ways to employ social technologies. In fact, we estimate that because the daily operations of professional services firms involve such a high degree of collaboration and interaction, the more efficient ways to communicate and collaborate using social technologies could create value worth as much as 12 percent of the operating costs in these industries (Exhibit 6). Moreover, through capabilities such as crowdsourcing talent, social technologies make possible disruptive new business models in professional services.

Exhibit 6

Social technologies could add \$243 billion–360 billion in value annually in professional services

Global 2011



¹ Hoovers, May 2012; US Census Bureau, *Statistical Abstract of the United States: 2012*, 131st Edition.

NOTE: Numbers may not sum due to rounding. Not to scale.

SOURCE: Hoovers; US Census Bureau, *Statistical Abstract of the United States: 2012*, 131st Edition, Washington, DC, 2012; McKinsey Global Institute analysis

However, little of this value is being captured today, because professional services firms in some areas are not using social technologies to the extent that they might. When asked what are the most valuable online activities for their organizations, law firms ranked distribution of white papers and e-books at the top of the list;

social applications were not near the top.¹³ In this and other areas, such as collaboration, knowledge management, and communication, the slow uptake reflects to some extent the relative immaturity of the relevant technologies.

Slow adoption also reflects organizational and cultural barriers. In surveys of law firm marketing executives, only 13 percent said they see value in using social media—and 60 percent said that there is resistance to doing so by top management in their firms. While 85 percent of surveyed law firms view social media as important and 92 percent track what is said about them in social media, 29 percent do not engage with any form of social media because of their firm's risk policy.¹⁴ There is a range of reasons for resistance, including a history of difficult technology implementations in professional services: professionals who must generate “billable hours” doing client work need substantial incentives to take time out to learn a new system—even if it would make them more productive.¹⁵

PRIMARY USES OF SOCIAL TECHNOLOGY

Social technology-based collaboration tools are nonetheless starting to play an important role in some firms in the professional services industry today. Some organizations are using social technologies to streamline processes by, for example, using internal social platforms to create and share guidelines and instructions for repetitive, similar tasks (e.g., templates for drafting client proposals or a primer on the most common tax issues in sales of retail properties). These shortcuts enable professional teams to spend more time on executing client work and less time reinventing known processes. Management consulting firms, for example, have started setting up communities where project managers can get fast access to useful blueprints for new engagements.

Social technologies are also helping speed access to internal knowledge and expertise, particularly to find in-house experts (and sometimes external ones) who can fill specific knowledge gaps. Professionals in large global law firms, for example, use internal social networks to quickly locate specific local knowledge of foreign legal systems and to share best practices.

Law firms have recognized the value of social data in litigation support. Information from social platforms is helping attorneys discredit witnesses and fine-tune jury selection, for example. In the past, the party that could spend more on professional trial consultants (such as social scientists or psychologists) to evaluate members of the jury pool had significant advantages. The Internet and social media allow attorneys to gather immense amounts of information about prospective jurors (e.g., arrest records, political affiliations) and to track their activities on social networks (e.g., blog posts, comments, group affiliations). Trial

13 Hinge Research Institute, “Online marketing for professional service firms,” Hingemarketing.com, 2011. The survey was of 500 professional services firms and 20 online marketing experts.

14 *Salary and social media survey*, Law Firm Media Professionals and Hellerman Baretz Communications, 2011.

15 See W. Orlowski, “Learning from notes: Organizational issues in groupware implementation,” *Proceedings of the 1992 ACM Conference on Computer-Supported Cooperative Work*, 1992.

lawyers also use social media to understand and manage public perceptions of a case. In some cases, they have even started using social media to find trial evidence.¹⁶

Several professional service firms have made social media an integral part of their broader recruiting strategies. Recruitment staff create their own profiles on social media sites to help them communicate with potential employees, search for professionals based on their network and recommendations, and post vacancies that are easy for targeted candidates to find (see Box 1, “Improving talent scouting through social media recruiting campaigns”).

Box 1. Improving talent scouting through social media recruiting campaigns

In Gap Year 2012, an intern recruitment program in Germany, Allianz, Bertelsmann, Henkel, and McKinsey used social technologies to reach out to college graduates who might be candidates for entry-level analyst roles. This social media campaign was much more successful at reaching the target group than other digital channels, such as banner advertising. It improved reach by 20 percent and lowered cost per contact by 27 percent. The effort even yielded higher-quality candidates: the proportion of applicants who eventually received offers was 36 percent higher for those who connected to the firms via social networks than for those who applied through standard career Web sites. It is worth noting, however, that application quality from single-purpose social career networks (i.e., serving only university graduates) was much higher than those from general-purpose social networks.¹

1 McKinsey & Company, *Turning buzz into gold: How pioneers create value from social media*, May 2012.

In some professional services fields, such as architecture, social technology-based marketing has become common. But in professions such as law, where social media provides a natural point of contact to establish new client relationships, many firms have been reluctant to pursue this opportunity. Many top law, consulting, and audit firms, as well as advertising agencies, use social media almost exclusively to distribute image-building content, such as white papers, and news about corporate social responsibility or pro bono initiatives.

Professional services firms may risk falling behind the demands of their clients to use social technologies for business communications and collaboration. According to a 2011 survey of 150 large UK businesses, 96 percent want the option to communicate online with their lawyers. In the same survey, consumers said they would rely on online reviews as much as personal references to choose

16 Rich Meehan, “Facebook and trials,” blog.ctnews.com, March 1, 2012.

an attorney.¹⁷ And, while major law firms weigh the benefits of using social technologies for client development, entrepreneurial firms are moving ahead. In the United Kingdom, where the Legal Services Act of 2007 was enacted to increase competition and allow new types of law firms, start-ups such as QualitySolicitors, face2face solicitors, 360 Legal Group, and Lawyers2you are using social networks, including Twitter, Facebook, and LinkedIn, to connect with potential clients and recruits.

Indeed, social technologies are making possible new service delivery models that could prove disruptive to the professional services industry (see Box 2, “Disruptive legal firm models rely on social technology”). For example, ReferMarket, an online referral market where lawyers and other professionals in the United States and the United Kingdom can be paid for referring clients to other professionals, uses LinkedIn and other social networks to attract new members. Such social networks and marketplaces have the potential to change how lawyers and other professionals obtain referrals and build new relationships.¹⁸

Box 2. Disruptive legal firm models rely on social technology

The economic downturn forced the legal industry to re-examine its high-cost business model. Even large clients were willing to try unconventional ways to engage legal talent so they could reduce expenses. Firms like Axiom and Clearspire offered a more efficient model—supplying legal talent on a project or temporary basis, charging flat fees for services and using social technology for collaboration and information gathering.

To lower overhead, these firms use highly qualified, freelance attorneys who are paid only when working on assignment. The new firms also have little need for expensive office real estate. Social technology enables their attorneys and other staffers to work from home anywhere in the world or from client premises. The collaborative social platform also allows clients to co-create documents and to make changes and comments in real time.¹

As a result, the upstarts charge about half of what traditional law firms do, while still guaranteeing quality work by highly skilled attorneys.² It proves that social technologies can bring new disruptive business models into even the most conservative, risk-averse industries.

1 “Bargain briefs—technology offers 50 ways to leave your lawyer,” *The Economist*, August 13, 2011.

2 Daniel Fisher, “New precedent for law firms,” *Forbes*, June 6, 2011.

17 Peppermint Technology, *What clients really want from a legal service provider—the first fully comprehensive research into the role of the customer experience in legal services, post the Legal Services Act*, research report commissioned by Peppermint Technology in association with Microsoft, NatWest Business Banking, Epoq, and Oyez Professional Services, October 2011.

18 *Examining the future for law firms and social media*, LexisNexis Martindale-Hubbell, 2011.

VALUE CREATION POTENTIAL

Professional services organizations are collections of highly skilled and deeply specialized individuals who come together to create value for clients by drawing on and combining their expertise. The core activities involve interacting with other professionals, support staff, clients, and outside experts, and finding, creating, and using content and knowledge. Therefore, the biggest opportunity for value creation comes from making interactions (e.g., collaboration, communication, knowledge sharing) more efficient and effective. Additional sources of value lie in product creation (e.g., co-creating new service lines), marketing and sales (e.g., more timely and accurate client insights), and recruiting. We estimate that the annual value generated from social technologies could be as high as \$240 billion to \$360 billion in professional services. This would equate to productivity gains between 0.4 to 0.7 percent annually over the next ten years.

PRODUCT DEVELOPMENT

An important source of growth for professional services firms is creating new service lines. Often, these new businesses are based on the specific demands of clients in particular industries and require access to narrowly defined expertise. Using social technologies, professional services firms can more readily access knowledge and experts to shape these service offerings and improve the economics of a highly labor-intensive process. Based on the estimated level of improvement that social technologies can bring to other knowledge-intensive collaboration work, we project that professional services firms can unlock value equivalent to 18 to 21 percent of current costs for developing and modifying services.¹⁹

Social technologies make possible a new development model for professional services: co-creating services with clients or even with other third parties. Co-creation and knowledge sharing with clients, in fact, can become an important source of differentiation and competitive advantage. Instead of providing commodity services (e.g., IT staffing), firms can develop unique services through collaboration and knowledge sharing that will also tie clients more closely to the firm. Successful co-creation of services depends to a large extent on willingness to disclose information and to work together across organizational boundaries to create new products or develop new ideas. Social technologies can support these tasks. Professional services firms investing in this model for product development are likely to benefit significantly from the collaboration tools of social technologies.

Helping clients manage their own social technologies represents a growing service line in many professional service sectors. Advertising, design, and marketing agencies build practices in social media, one of which is monitoring and analyzing social data; IT consulting firms provide technology; and law firms advise clients on social media policies, ranging from intellectual property protection to use of employee social data.

¹⁹ Assuming 80 percent of labor in this value chain step is interaction work.

OPERATIONS

Social technologies provide a way for professional services employees to search, share, modify, and interact on relevant knowledge from anywhere, allowing for flexible work flows and global collaboration, both internally and across company boundaries. These activities, which we describe as being the “operations” of a professional services firm, are where social technologies can create significant value. Based on our analysis of interaction work across industries and the high concentration of interaction workers in professional services, we project that the potential value from fully implementing social technologies in professional services operations could be equivalent of 7 percent to 12 percent of total operating costs, depending on the subsector. This indicates potential value at stake of \$120 billion to \$220 billion globally across all professional service sectors.

These benefits can be captured not only by client-facing professional services staffs, but also by employees in business support functions, such as finance and accounting and IT. Realizing the potential value of improved collaboration, however, requires widespread participation, which sometimes needs to be induced (see Box 3, “Getting employees to use a social platform for collaboration and knowledge sharing”).

Box 3. Getting employees to use a social platform for collaboration and knowledge sharing

Bluewolf, an IT outsourcing and consulting company, faced the challenge of encouraging employees to share knowledge and collaborate on a social platform. It created a social portal-based resource center that provides training on different collaboration and knowledge-sharing platforms. Then it created social profile pages for all employees, identifying team memberships, areas of functional and vertical (industry) expertise, clients served, and personal information. The page also listed internal and external social activities, including blog posts, white papers, or case studies by the employee, as well as social media analytics showing the employee’s influence.

To build engagement, the company added gaming components to internal and external collaboration tools: employees earn points for filling out fields on their profile pages, for posting or commenting using the internal communication tool, for publishing blog posts, for attracting visitors to those blog posts, and for sharing content via external social networks, as well as for receiving inbound clicks on those shares. There are special challenges that reward the winners with small prizes: the “spread-the-word” challenge gives employees who get 50 clicks on a shared link to the Bluewolf site a \$25 gift card and a badge saying they won the challenge. Bluewolf monitors the success of its social media initiative via site traffic and internal collaboration. In the first four months after the program launch, collaboration via the internal social network increased by 57 percent.¹

1 David Kirkpatrick, *B2B social media: Gamification effort increases Web traffic 100 percent, employee collaboration 57 percent*, Marketing Sherpa, case study number CS32169, May 2, 2012.

MARKETING AND SALES

Opportunities in marketing and sales in professional services through the use of social technology are in building and fostering relationships. Using the social graphs of influential clients (or even opening up a firm's social graph) could expand professional networks of all participants, foster new relationships, and provide introductions to potential clients. By building up existing customer relationships on social networks, and integrating client personnel into proprietary social networks, firms can also enable more effective knowledge sharing and co-creation, as well as speeding access to experts and expertise. These activities are beyond traditional marketing and sales but are powerful tools for forming and strengthening the relationships that create revenue opportunities. They also help make loss of clients less likely—clients who have co-created knowledge, shared expertise, and made professional connections on one firm's social platform have substantially higher switching costs.

Externally, social media is a powerful tool to build overall brand strength and awareness and to signal subject matter expertise. At relatively low cost (i.e., compared with print or television advertising), professional services firms can establish credibility as thought leaders with a wide audience. Firms can use social media—home pages, tweets, blogs—to share knowledge initiatives, circulate press releases or video interviews, stimulate debate around topical issues, and build public awareness about what they do. By creating and sharing valuable content such as white papers, case studies, or how-to videos, even smaller professional services firms can create significant visibility and recognition as experts (see Box 4, "How social technologies gave a small architecture firm a national reputation").

Social technology-based collaboration tools can also be used to create virtual project teams with clients. For example, TMS, a London-based firm that specializes in road transportation, has adopted social technologies to manage communications and collaboration among its professional staff and with its clients (see Box 5, "Speeding up collaboration with clients").

One of the most important ways in which social technologies can improve professional service operations is optimizing the allocation of professional talent. This involves both assigning internal resources and drawing on the global pool of freelance or subcontracted professional talent that can be tapped across social networks. Social technology can significantly improve talent resourcing, because it provides ways to identify specialized expertise—partners, subcontractors, and offshore resources—to simplify resource sharing among firms regardless of location.

Box 4. How social technologies gave a small architecture firm a national reputation

By blogging, podcasting, and interacting with the design community online, HPD, a three-person architecture and interior design firm in Dallas, gained national visibility and developed qualified leads. HPD used microblogging to meet and follow relevant design community members and to engage in ongoing discussions by sharing links to relevant content on other design Web sites. Simply by sharing content created by others (or “curating”), HPD built a reputation as a knowledgeable resource for the architecture and design community.

HPD also creates its own content, including “The Architecture Happy Hour,” a podcast series in which the partners share their views on architecture topics. They also write blogs to spotlight innovative and interesting happenings within the architecture community. The team uses social media to promote podcasts and new blog posts and to build a loyal subscriber base. HPD’s social media efforts have led to interviews in national publications, invitations to speak at industry conferences, and word-of-mouth recommendations as a resource not only for architects, but also for all kinds of firms that hope to raise their profiles and find business by using social technologies.¹

1 Sean McVey, “HPD Architecture: A study in social media for architects,” Professional Services Marketing Blog, Hingemarketing.com, August 26, 2011.

Box 5. Speeding up collaboration with clients

Traffic Management Services (TMS) manages road works for contractors and local or national road authorities in the United Kingdom. The company introduced a proprietary collaboration tool in April 2009 to simplify the sharing of information and improve electronic communication and online collaboration with its clients. In one virtual workspace, TMS now shares design drawings with clients such as the London Borough of Barnet and Transport for London, vastly reducing turnaround time on changes and improving collaboration by avoiding mailing revisions back and forth. Using social technology, TMS now uploads the documents into the workspace, the system automatically notifies the clients that new documents are available, and clients as well as other invited team members can review, comment on, and approve material in real time. In addition, teams use a central diary to coordinate projects. So far, TMS has implemented 14 workspaces for three clients and expects to have its entire customer base using the collaboration tool within 12 months.¹

1 “Huddle and Traffic Management Solutions work together to keep the traffic flowing,” www.huddle.com case study.

Another critical source of value in professional services is recruiting. Firms thrive—or don’t—based on their ability to attract and retain the best professional talent. In the first stage of the employment life cycle, social recruiting platforms make it significantly easier and cheaper to identify talented individuals in labor markets across the world. We estimate that firms can reallocate the equivalent of 40 percent of recruiting costs through use of social technologies. Moving to social media can reduce costs of recruiting agencies and traditional recruiting advertising by, for example, using professional networks and expert forums to reach the most likely targets directly.

Once talent is identified and hired, social media may help raise retention rates by improving the general work environment, building communities of employees with shared interests, and enlarging the breadth and depth of professional relationships. Furthermore, using social media to improve resource assignments (matching talent to projects) can also improve project quality and employee satisfaction. These improvements are likely to increase employee retention in the long run.

VALUE SHIFTS

Firms can use social technologies to provide highly customized offerings, where price is not the primary factor in purchasing decisions. By doing so, firms can generate higher margins than are available with more commodity-like services, such as routine accounting or IT services. However, the potential for social technologies to enable crowdsourcing of professional talent shows how social technologies could disrupt existing players (see Box 6, “Bringing high-end design to small and medium-size businesses”). If clients can bid for professional services online, many kinds of professional services firms could feel pricing pressure.

Firms with highly customized offerings and strong customer ties may regard the payoff from investments in social technologies less as an opportunity to capture direct economic value, and more as a way to bolster relationship and intellectual capital. With social technologies, firms will build up knowledge of their clients’ processes, working styles, and industries. All of this information contributes significantly to the total amount of value a firm can create for its clients. If a client were to switch firms, this value would be lost. As a result, clients will be less inclined to switch firms to save on the cost of service. However, in the long run, market forces will likely cause increasing amounts of the value creation to filter down to the customers.

Box 6. Bringing high-end design to small and medium-size businesses

Choosa is an international design crowdsourcing platform and community. Registered customers publish their requests for design work—a new Web site, logos, brochures—together with an offering price. Any of the 16,000 designers in the Choosa community can pick up the request and respond with a proposal. The customer can monitor those proposals and suggest creative adjustments. Then the customer executes a contract with the best designer with the best offer. Choosa customers have offered more than 1,000 jobs, and have received, on average, 125 submissions for each. The platform helps both small business owners and designers alike: small business can access a global talent pool and get high-end design results at affordable prices, while designers are able to increase their exposure and client base and establish themselves in an international design community.¹

1 Choosa, "About us," www.choosa.net.

WHY ADOPTION IN PROFESSIONAL SERVICES IS SLOW

For all the potential benefits of social technologies, professional services firms face many barriers to adoption. In addition to the cultural issues noted above—resistance by top management and lack of enthusiasm by professionals who don't see a personal benefit in investing in a new work routine and sharing more information—professional services firms must consider privacy and security issues. What's more, the modes of social interaction that social technologies make possible and that have become so popular in some cultures are not useful in others. For clients and colleagues in cultures that value "face time" and relationships rooted in physical proximity over task orientation, virtual online collaboration via social technologies may be inappropriate.²⁰

Ensuring that relationships of trust and confidentiality are maintained is another barrier for social technology adoption. Maintaining confidentiality is a key priority for most professional services firms and is critically important for firm reputations. The concept of sharing information on a social platform—even in a completely secure environment—could make clients and employees uncomfortable. There are additional risks, even in the personal use of social technologies by professional services employees or clients. Logging on to Facebook from a smartphone could give away the whereabouts of parties to secret negotiations, for example. As a result, users of social technology within professional services firms need to ensure that their personal use does not damage the firm's brand or reputation.²¹

20 Gary M. Olson and Judith S. Olson, "Distance matters," *Human-Computer Interaction*, Volume 15, 2000.

21 *Examining the future for law firms and social media*, LexisNexis Martindale-Hubbell, white paper, 2011.

The future of the social economy

In business, we expect to see the impact of social technologies grow, as management innovations start to accompany deployment, innovation, and adaptations of social technologies in and across enterprises. The types of organizational changes required to take advantage of these opportunities do not happen overnight, and we expect that it will take years before the full potential is achieved. However, the history of the waves of information technologies over the past several decades shows that technological innovation is followed by the management innovation that leads to lasting productivity improvements.

We expect social technologies and management innovation to help firms and economies improve their productivity, and we look forward to a world in which the experience of work is improved. Social technologies, in fact, have the potential to unlock the initiative, creativity, and passion that are needed to produce true innovations and enable companies to tackle the most difficult problems. “Individuals choose each day whether or not to bring these gifts to work,” says management consultant and author Gary Hamel.²² We believe that the interactions enabled by social technologies can encourage more engaged employees to bring their creative gifts to their work.



This paper describes how social technologies can be catalysts for disruptive business models in professional services. We also expect that social technologies will enable the creation of radically new organizational forms. With social technologies bringing the speed, scope, scale, and transformational power of the Internet to human interactions, it is not unlikely that new organizational life forms will appear. These could include far more networked, flexible, mega-scale global organizations that don't require command-and-control hierarchies to maintain coherence. Conversely, agglomerations of small firms that coordinate through social technologies might challenge large, integrated multinational corporations. We would not be surprised to find social technologies as the backbone, exoskeleton, or connective tissue of new organizational life forms that we cannot anticipate today. And perhaps the use of social technologies could lead to more participatory governance processes and more responsive governments.

²² Gary Hamel, *What matters now: How to win in a world of relentless change, ferocious competition, and unstoppable innovation* (San Francisco, CA: Jossey-Bass, 2012).

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