

McKinsey Explainers

# What is social media?

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### You probably already know what social media is.

Whether you cringe at the memory of your Myspace page from the early 2000s, keep in touch with your aunt on Facebook, or are regularly unsettled by too-relevant ads on Instagram, few of us are strangers to a feed. In fact, nearly 60 percent of the world's population uses social media. And as of July 2022, global adoption of social media is showing no sign of slowing: new users are joining social-media platforms at an average global rate of seven users per second.

So if you're reading this, we'd guess you know social media when you see it. But what would you say if your great-grandmother asked you to *define* social media? Our definition—the applications and websites that allow people to interact with other users, businesses, communities, and content—is accurate, but it also seems to include a large portion of the internet. What are the actual parameters? What do people use it for? And how can businesses use social media to reach new customers in new ways? Let's break it down.

### When did social media start?

If social media is just a means of mass communication, you could argue that the telegraph, invented in 1844, was the first of its kind. But that's a bit pedantic: social media as we know it probably began in 1997 with SixDegrees—a short-lived social-networking website for making friends. Personal blogs became popular with the launch of LiveJournal in 1999. And the early 2000s saw the launches of the now-ubiquitous social-media platforms LinkedIn and Facebook.

### What are the different types of social media?

Social media has revolutionized how people socialize, do business, shop, date, come up with ideas, and get news. It's limitless. There are now so many platforms that it can be difficult to keep track (sure, you've heard of TikTok and Snapchat, but what about BeReal and Yik Yak?). And it's changed the way that businesses connect and transact with

their customers. Organizations that understand the different types of social media and how to use them are at an advantage. In particular, there are four social-media categories that organizations should be aware of:

- **Social networks.** Social networks, such as Facebook and Twitter, allow people to foster relationships with family, friends, brands, and perfect strangers. Users can follow other users online, sharing photos, life updates, random thoughts, and more. Businesses can capitalize on social networks through branding and customer service.
- **Media-sharing networks.** You may have guessed from the name, but people typically use these platforms—such as Instagram, Snapchat, TikTok, and YouTube—to share photographs, videos, and other types of media. Media-sharing platforms are the domain of social-media influencers: popular users who use their social platforms to influence their audience's lifestyles, consumer behavior, and more. Through partnerships with these influencers, businesses can target specific audiences and promote their products or services.
- **Discussion forums.** On discussion forums, people can share general advice, ask silly (or serious) questions, make restaurant recommendations—anything you can think of, and a few things you probably can't. Because platforms such as Reddit have lots of visitors (1.7 billion visits to the site were recorded in May 2022) discussing a large number of topics, businesses can use discussion forums to gain research insights into new potential markets. Companies can create advertisements, answer consumer questions, and provide customer service by responding to compliments and complaints. They can also crowdsource ideas for products and launches.
- **Consumer reviews.** You have likely used apps such as TripAdvisor and Yelp before, maybe when you were vacationing in a new city, exploring a

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new type of cuisine, or sounding off on a good—or bad—consumer experience. Many people rely on these platforms and their reviews when making decisions about new products, brands, and services. Online consumer reviews can be vitally important for a business.

## Who uses the most popular types of social media?

We know that billions of people all over the world are using social media. But who are they? According to a 2021 survey of more than 1,500 American adults conducted by the Pew Research Center, approximately 84 percent of respondents between the ages of 18 and 29 reported that they habitually use at least one form of social media. A majority of these users attended college or earned at least \$75,000 annually. Businesses can use these and other survey statistics to their advantage by catering their marketing on social media to a generally young, well-educated audience.

In addition to this core demographic, a wide variety of people of all ages are on social media, and certain generations gravitate toward different platforms. Most of Facebook, LinkedIn, and Twitter's users are between the ages of 25 and 34. However, Twitter's second-largest bloc of users is made up of those aged between 35 and 49, which skews the overall demographic older. Just more than 70 percent of Instagram's users are under the age of 34. TikTok

is known as Gen Z's stomping grounds—in the United States, 25 percent of its users are under the age of 19.

## What are the four primary social-media functions for businesses?

As we've described, social media has myriad uses, and everyone seems to be on a platform for a different reason. It can be difficult for businesses to keep up with platforms' functionalities and demographics.

McKinsey has pinpointed the four primary functions of social media for businesses—to monitor, respond, amplify, and lead consumer behavior. These four functions are linked to the journey consumers undertake when making purchasing decisions:

- **Monitor.** Businesses can keep a close eye on how customers are responding to their brand and adjust their marketing and strategies accordingly. Customers have extremely high expectations: survey results show that half of consumers who have a negative experience will publicly complain online. And social media is having a big impact on consumption habits, especially among younger people: one in ten omnichannel shoppers in a McKinsey survey say they had made purchases directly via social media.

- **Respond.** When a complaint is made, speed counts. A study finds that 79 percent of consumers expect a response within 24 hours of a complaint, and 40 percent expect brands to respond within an hour. What's more, 81 percent say if they don't receive a response when they complain online, they won't recommend that company to their friends. These are high standards; only about 50 percent of businesses meet these expectations. But companies that respond quickly and genuinely can positively affect consumer perception and behavior.

It's also critical to communicate such feedback quickly *within* the business. Whoever is responsible for brand monitoring must make sure that the information reaches relevant teams, such as communications, design, marketing, public relations, and risk.

- **Amplify.** Amplification is marketing activity that spurs broader engagement and sharing. This includes referrals and recommendations, community stimulation, and brand advocacy. For example, Starbucks launched a campaign in 2009 that awarded Twitter users \$20 gift cards for being the first to tweet a picture of new advertising posters in major US cities. The company shared that the campaign, which turned core customers into brand ambassadors, was “the difference between launching with many millions of dollars versus millions of fans.”<sup>1</sup>
- **Lead consumer behavior.** Businesses can use social-media platforms to encourage long-term behavioral changes among consumers—usually achieved through activities related to brand content awareness, product launches, targeted deals and offers, and customer input.

With an awareness of all social-media functions, companies can make informed decisions on how to lead consumer behavior. One example is the Old Spice Man campaign, launched in a 2010 Super Bowl commercial. The campaign started on television, but Old Spice quickly moved to

social media as a way to interact with millennials, a new audience for the heritage brand. After just one month on YouTube, Old Spice became the platform's all-time top-viewed brand. Ultimately, the ad got more than 19 million hits across social-media platforms, and Old Spice sales grew 27 percent in six months.

Overall, social media offers significant advantages for businesses that adequately monitor, respond, amplify, and lead consumer behavior. The most powerful social-media strategies focus on a limited number of marketing responses closely related to every stage along the consumer decision journey.

In the future, personalization—on social media and elsewhere—will unlock a wealth of new opportunities for companies. We've already seen the benefits of personalization in action: it can reduce customer acquisition costs by as much as 50 percent, lift revenues by up to 15 percent, and increase marketing ROI by up to 30 percent. Personalization has also been shown to improve performance and customer outcomes. And the COVID-19 pandemic has only made personalization more urgent for brands: three-quarters of customers have switched to a new store, product, or buying method during the pandemic, proving that store and product loyalty are increasingly things of the past. In the future, successful business leaders will employ generative AI tools, such as ChatGPT, to craft personalized messages on social media, as well as other sales content, to drive conversions.

## What is social commerce?

Social commerce is when customers browse and shop directly on social-media platforms. It's already a core feature of e-commerce in China, but this new way of buying is growing rapidly in the United States as well. In 2021, \$37 billion in goods and services were purchased through social-commerce channels in the United States, and that figure is expected to increase to nearly \$80 billion by 2025. Globally, the social-commerce market is expected to grow to more than \$2 trillion by 2025.

<sup>1</sup> Claire Cain Miller, “New Starbucks ads seek to recruit online fans,” *New York Times*, May 18, 2009.

For consumer brands, social commerce creates the opportunity for an interactive, entertaining, and experiential journey—one that also feels less promotional than the traditional journey. For example, rather than starring in an ad for a new skin care product, celebrities can invite fans behind the scenes to view their skin care routines, demonstrating how they use the branded product and why they love it. Then fans can buy the product within the platform.

Innovation has driven creativity within Chinese social commerce. TikTok (and its sibling app Douyin, which was its foundation) has emerged as a leader in social commerce, with gamified product purchasing and a strong social element. Live-stream hosts build a rapport with their high-volume customers, and that rapport builds a sense of community and helps bring important customers back on a near-daily basis.

The US social-commerce market is likely to evolve differently from China's, but there are some parallels. For instance, social-commerce adoption in the United States is currently being driven by social-media and content creation platforms, such as Pinterest and TikTok, adding new shopping capabilities, just as their Chinese counterparts did

half a decade ago. And interest is growing in these new shopping features: a 2021 retail survey by Forrester found that 61 percent of online US adults younger than 25 said they had completed a purchase on a social or creator platform network without leaving the website or app, up from 53 percent in 2020.

## What are some of the risks of social media for businesses?

Despite social media's opportunities for business growth, using such platforms for marketing introduces many challenges. Here are five social-media risks to be aware of:

- *Customer expectations vary across platforms.* The most popular platforms—such as Facebook, Instagram, and TikTok—have many users who are relatively young. But beyond that, demographics on these platforms can look quite different. Companies should cater their tone, customer service, and advertisements to each platform's users.
- *High expectations for service response.* As we've described, customers expect quick responses to their online questions and

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complaints. Some consumers hope for a response within an hour; others, 24 hours. Either way, only about 50 percent of businesses can keep up with these demands.

- ***Unpredictable service demand spikes.*** There's always a risk that an online review will go viral, especially when social-media influencers get involved. The related dramatic spikes in company awareness (positive or negative) can be hard to predict.
- ***Gaps between required and available skills.*** The hiring demand for social-media experts changes year to year, and it can be a challenge for companies to keep their social-media teams up to date.
- ***Complicated workflow and technology investment choices.*** Because social media is so dynamic, it can be difficult for leaders to make the right investment decisions when it comes to related technology. Operating models should allow for a wide range of actions and responses—including authenticating posts, gathering customer information, and providing on- and offline resolution—and automatically allocate them to the appropriate service teams.

There are many risks that come with company marketing in social media, but frequently, the rewards outweigh the risks. It's important for businesses to understand the relationship between social media and marketing—and how this relationship is evolving.

## **What effect does social media have on customers' purchasing decisions?**

Before the use of social media for marketing, businesses relied on media such as newspapers, radio, and television. Companies had to spend a lot of money if they wanted to reach a broad audience, and even then, they couldn't use the platforms to monitor, respond, amplify, and lead consumer behavior. Today, social media has made it possible for marketers to reach customers

at any and every stage of the consumer decision journey. In fact, social media is the only form of marketing that can give businesses the opportunity to influence consumers from the moment that they begin thinking about a purchase all the way to after they've received a product.

McKinsey studied the purchasing decisions of 20,000 European consumers in 2013 and 2014. Respondents were asked if social media influenced their purchasing decisions significantly. The results showed that social media had significant effects on consumers, both directly (when social-media recommendations played a critical role at the point of purchase) and indirectly (when social media played a role at earlier decision journey touchpoints, such as initial awareness of a product). The study also revealed that between 2013 and 2014, there was a 10 percent increase in consumer purchases related to product recommendations received on social media. These study results serve as a testament to how social media can affect consumers at any stage of the decision journey.

The relationship between social media and consumer behavior seems stronger than ever, but the landscape is constantly shifting. In the future, new platforms might make it easier for users to share their experiences with companies, products, and services. At the same time, it might become more complicated for businesses to keep up with these developments and adapt to the new challenges and opportunities that social media will bring. Companies need to prioritize staying ahead of this powerful technological movement.

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