



Nielsen  
Media Research

***The Challenge of Change***

**By**

**Susan D. Whiting  
President and CEO  
Nielsen Media Research**

**To the**

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of Nielsen Media Research**

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Good morning. Welcome to Miami and welcome to this year's National Client meeting. The theme of this year's national industry conference is "The Challenge of Change." We have a record number of attendees and so much to discuss.

Now I have to tell you that when this title was first proposed, and I realized I was tasked with giving some opening remarks, I thought of the Charles Schultz characters in "Peanuts" in which my favorite CEO, Lucy, is having a conversation with Linus:

Lucy asks: "Do you think anybody ever really changes?"

Linus innocently replies: "I've changed a lot in the past year."

And Lucy drops the hammer: "I mean for the better."



Schultz is not so subtly reminding us that all change is not growth; all movement is not forward.

Yet the Television Marketplace is certainly undergoing enormous change, perhaps revolutionary change -- as a *Multichannel News* special report recently reminded us -- spurred by consumer electronics innovation, the demands of mobile populations, the portability of traditional, linear television video programming to cell phones, automobiles, portable media players and, of course, the PC.

What does this mean? *Ad Age* reported last month from the ANA annual meeting in Naples, Florida, quoting Terry Semel, CEO of Yahoo, saying: "The consumer is the official programmer."

Maybe.

But for all of these challenging changes, television's success as a commercial enterprise depends on an accurate, reliable audience measurement service in which buyers and sellers of commercial time have confidence. And that's exactly what brings us here, together, for the next few days. We will be hearing a lot about specific changes in the measurement -- even changes to the changes we at Nielsen proposed earlier.

As we consider the changes that I'll discuss later, perhaps it would be helpful to consider them in three dimensions:

**First:** The changes Nielsen makes via the measurement itself. That's fairly straight forward.

**Second:** The process for managing those changes -- how much brake or how much gas to apply to the process. That requires a considerable degree of research and political sophistication.



**Third:** How all this affects different clients, competing clients, differently. And that is certainly a “Challenge.”

This third point also appears to generate the most heat. We have national and local clients; buyers and sellers; networks and stations; broadcasters and cable owners; syndicators; and giant, multi-media corporations who are on all sides – and not even they can always agree.

Just look at how the buyers and sellers reacted to our recently announced decision to delay the start date for reporting viewing data from DVR households in the National sample so we could add “same day” ratings as a third stream of data.

“We’re disappointed by the delay,” Bruce Goerlich of Zenith Media told *AdWeek*. “We think this really is responding to the seller’s needs, not our needs.”

Susan Nathan at Universal McCann put it more directly: “Nielsen is kowtowing to what the networks want,” she said.

David Poltrack of CBS saw it differently, however, telling *AdWeek*: “We have to have same-day playback. If a movie studio advertises on Thursday night, there is a huge difference in value between the viewer watching that night either live or in playback and seeing it the following Sunday. We need that data to appropriately assess sales value.”



It's easy enough to find clients who disagree. But this is beside the point. This is, instead, a perfect example of the "Challenge" all of us, collectively, as an industry face when confronting the Challenge of Change. Nielsen could communicate the research changes until everyone is saturated with information, and say "yes, I understand." But understanding does not necessarily translate into agreement.

How does Nielsen – the independent television ratings service – navigate through this sort of dynamic tension? And, as we have just seen, that's just among clients with conflicting interests. Turn it up a notch and there are issues where better, more improved methods of reporting audience lead to changes in the ratings, the economic consequences of which can be staggering. What do we do when better measurement leads to lower ratings (at least for some clients)? We have seen – and are still seeing – the political fallout from such measurement changes. We see it in Washington and in City Councils in the major markets, including, TV advertising, public rallies, PR campaigns and more.

I don't have simple answers for this rather unique Challenge, but I do think that we all have to take responsibility. More than parochial interests are at stake here. We all have to make certain that the television industry's competing, conflicting, interrelated business interests are an integral part of the television audience measurement process. This includes your willingness to get involved more directly with Nielsen, in working more cooperatively to help us prioritize research directions, make certain that fairness is achieved, and that those who try to game the system will be rebuked.



We are going to do better – all of us -- because all of us have a stake in making certain that the research estimates are as good as they can be.

We also should recognize that it's a two-way street. If, for instance, you build a new system for attracting audience, and that audience cannot be measured, your business is undervalued.

Nielsen's job is to deliver the best possible audience estimates. As the umpire we take some small comfort in knowing our calls are never going to simultaneously please the hitter and the pitcher. But we do have a stake in making sure the contest is played evenhandedly. That means every one of us must agree on the rules before hand. We can't make up new rules as we go along.

I believe that Nielsen today produces more and better ratings information than ever before. I know we have been accused of allowing the measurement focus to cloud our client focus. We need to do a better job, going forward, of making certain that everyone knows the rules of the game before play begins.

That's why I wrote to each of you last month, and met personally with many of you, to discuss how we at Nielsen intend to work differently going forward. It is not business as usual. We communicated to you an action plan that reflects a number of the major concerns that have been collectively raised with us in industry and one-on-one meetings. Let me outline these initiatives:

### **Research & Development Fund**

R&D and the introduction of new technology provide the foundation upon which our entire business is built. Our



commitment to research has never been stronger than it is today – and a little later on, Rob van den Bergh, the chairman of our corporate parent, VNU, will have more to say about this.

We do recognize, however, that our clients have had limited direct say in our R&D spending. We need to collaborate with our clients in an R&D effort to make sure their priorities are reflected in our spending.

We are creating a separate \$2.5 million R&D fund that Nielsen will manage in cooperation with the industry. This fund, which is incremental to our normal R&D investments, will be focused on methodological research. We will ask a small group of clients, representing different industry segments, to serve with us on a steering committee that will direct the spending over the course of a year. Once we and our clients have evaluated the success of this initiative during the first year, we will determine the size of the fund on an ongoing basis.

### **MRC Commitment**

In that same spirit, we are fully committed to the MRC process. This is not a new position for Nielsen, but with so much political intrigue circulating in the marketplace today, it is important that I make this point unequivocal. The MRC audit process is highly detailed and makes the audience measurement process transparent to our clients who take the time to consider the audit results. We will work with the MRC and with our clients to establish clear guidelines for improving the overall MRC accreditation process.

### **Advertiser Advisory Council**

We believe there should be more structured give-and-take between Nielsen and the advertisers so that we better



understand their needs and have an opportunity to obtain direct feedback from them on our priorities.

We are concerned that we have appropriate direction from advertisers as we try to balance the demands for even more granular, high quality information in an evolving world with the pressure to lower costs. Some measures of audience may need to be highly accurate while others may be “good enough.”

We are creating an Advertiser Advisory Council, which will be composed of representatives from the top advertisers in the major service categories. Our goal is to meet twice a year. The Council would be a forum that advertisers use to communicate their strategic initiatives and discuss with Nielsen how our business can support them.

### **Video on Demand**

Many of our National clients have told us that you urgently need to understand how viewers are using Video on Demand. While we are actively engaged in developing this capability, the message we’ve heard is that we need to accelerate the process.

Brian Roberts, the CEO of Comcast has very recently made some important announcements about directions his company is taking with regard to VOD as well as DVRs. We have been working closely with Comcast, as well as many others. That puts us in a strong position to move forward.

Our A/P Meter, along with client encoding, prepares us to measure VOD, but there are many additional details that need to be worked out. We are committing to our clients that we will get back to you with a plan for VOD measurement in less than 90 days.

### **National Respondent Level Data**



We recognize the importance of Respondent Level Data as a key research tool for our National clients, and we recognize that Respondent Level Data need to be readily available, delivered in ways that clients find easy to access and easy to use. That is why we have communicated to you about making significant changes to the NPOWER (software data delivery) system and are introducing the All Minute Respondent Level Data File – both later this year.

Based on changes in the television business, it is important to understand the possibilities of a finer granularity. Therefore, we are committing the research resources to quantify and analyze differences in audience estimates based on the level of granularity. As part of that research, we will put a plan in place to compare the minute level data to 30-second data, then 15-second data, and so on.

OK, that summarizes some of the new initiatives that I communicated to you last month. This is only a beginning. We are putting in place the teams and steps and communication process to keep you up to date on these initiatives. You will get a status report next week. In addition, we are looking at other ways to make sure we are more responsive -- through people and projects.

But I do want to highlight some of our more important ongoing initiatives. For example:



## **National Sample Expansion**

Measuring increasingly fragmented audiences requires larger samples. As we grow the National People Meter Sample to double what it was at the beginning of this journey, we will be able to offer more granular detail with greater reliability. This will result in a considerable quality improvement. To achieve an effective sample size of 10,000 households, we are adding 2,000 households (in replicates) throughout the United States, in addition to households being added through the integration of Local People Meter markets. Much of that work has been done, and today we are more than half-way to our goal, with an effective National People Meter Sample of more than 7,100 households.

## **Sample Quality**

Another aspect of sample quality is representation. As the demography of our society changes, our samples need to accurately reflect the world we measure. That is increasingly difficult and we are constantly working to find new ways to reach and recruit people to whom Nielsen is not necessarily a household name. Improving our name recognition is just one of the challenges we face as we strive to create representative samples. We have specific plans underway to support this goal, including community outreach and advertising, research affiliations and programs.

We must also have larger samples to provide more reliable estimates of increasingly fragmented audiences. Larger samples are more inclusive samples. Marketers continue to focus on reaching distinct audiences with specially crafted and targeted messages. We must be able to provide the insights that support those decisions.



We may approach larger samples a number of ways -- the expansion of samples, new technology and integration of other data sources from other samples.

As many of you know, Time- Warner and Nielsen have enjoyed a close relationship for many years that relationship has recently expanded and now includes collaborative set-top box development work with Time-Warner Cable to pursue advanced measurement techniques over and above traditional metering approaches used by Nielsen.

### **A/P Meter Rollout**

I want to focus for a minute on one of the most exciting technological breakthroughs in Nielsen's history of measuring television audiences. As you may know, Nielsen is making a major change in the way it collects information about television programming. The current measurement system, employing the Mark II Meter, works very well. It will be difficult, however, to handle virtual channels in an all-digital environment, when multiple programs are running simultaneously on the same channel, or time-shifting occurs, or Video on Demand becomes commonplace. A new metering system is necessary to ensure we know exactly what program is on the TV screen in our sample homes at any time. Correct program identification is a must for a television ratings service.

The Active/Passive Meter -- A/P Meter for short -- is a set meter, designed to answer the question: "What's on the TV?" In the National and Local People Meter services, this A/P Meter System will be linked to the People Meter -- so we will know WHO is watching WHAT.

I am pleased to inform you that on Thursday, March 3, the A/P Meter system was installed in our first sample home -- in the Ft. Myers, Florida, Metered Market. The household,



located in Naples, Florida, consists of two retired adults with two televisions, a VCR, a VCR/DVD combo box, and a set-top box with a DVR. This household will begin contributing to the Local sample on April 7. The installation took approximately three hours. That's about half the time of a normal install.

This is an exciting technological milestone for Nielsen.

Starting in July, the A/P Meter will be introduced into our National and Local People Meter Samples.

I hope you agree that we've come a long way.

### **Local Market Quality**

In addition to the A/P Meter initiative, I think it is also important to understand some of the things we are doing on the Local level. We have listened closely to the concerns expressed by our clients and are taking a number of steps to strengthen the quality of our local services.

As you know, in the top 10 markets, we are halfway through the process of converting to full-time demographic reporting with Local People Meters. LPM is now the currency in New York, Los Angeles, Chicago, San Francisco and Boston. Later this year we will add LPM service in Philadelphia, Washington D. C., Dallas and Detroit. In 2006 Atlanta will convert to LPM service, completing the top 10 roll-out.

It is hardly a secret that the LPM program has been unusually controversial. An example of where better measurement has produced lower ratings for some, and with it a massive political offensive to discredit Nielsen. And as I mentioned earlier, one client has brought this issue to Washington big time, seeking Federal regulation of the ratings business.



The television industry has, since its inception, resisted government intervention into programming, news and advertising.

At a time of constant change and required innovation, we all need to consider this issue.

Do we want to have a government body, with little practical experience, involved in the decisions about your currency? How does that impact your ability to discuss changes with Nielsen or other ratings companies directly? How do you impact change and direction when you have a government body involved? Do you really believe it would be faster? How could that process be politically manipulated?

We think FTC or any government regulatory oversight is a bad idea – for all of us. But we need your help in speaking out on this issue.

This issue does involve all of you. It is not something that you can leave to others or you may have no voice in the future.

We must do our job in measuring well and having transparency. You need to decide how you want the conversation to occur through more third parties or directly with each other.

### **Set-Meter Markets**

While all this is going on, we are paying attention to the core measurement. Our Set-Metered markets are just one example. Here sample representation has been a major focus for our clients in these markets. We have several major initiatives in 2005 that will provide better tools to provide the best performance. One of these new approaches is to broaden our coverage of Membership representatives in these markets by



adding even more Membership Representatives than originally planned.

### **Diary Markets**

Diaries – those much maligned paper diaries -- are the primary demographic measurement tool in the great majority of local markets. They are also the most affordable measurement tool. While we continue to research electronic options for small-market measurement, we also continue to invest in improvements and maintenance for the diary as well. One of the most recent initiatives involves a financial incentive test that, last month, provided up to \$15 to homes where a head of household was under 35 years of age. Further, we will be introducing increases to our over-sampling procedures, in conjunction with research dedicated to improving cooperation from these groups.

### **PPM Research**

Everyone here probably knows that Nielsen is engaged in an R&D collaboration with Arbitron to explore the Portable People Meter. We have worked hard with Arbitron to improve cooperation rates to an acceptable level. We are also trying to address a number of engineering and sample issues. There are also some client concerns about how a passive exposure to an audio code will affect the standard definition of viewing in which the respondent determines if they are watching or listening to television.

We recognize the potential for a portable metering system that is persons-based. But it is not a panacea. While our work with Arbitron shows promise, I am convinced that measuring our changing, portable, expanding, diverse population of consumers and their technologies will require multiple approaches to audience measurement.



We had intended to announce our decision of whether or not to participate in Arbitron's Houston project by this summer. However, due to some technological issues, Arbitron has removed the PPM devices in Houston. That necessitates a change in our schedule. We are working with Arbitron to determine a new schedule for decision making.

One possible near-term application of PPM or PPM-like technology could be to produce Out-of-Home estimates.

### **Extended Home Measurement**

We do have some specific plans for Extended Home Measurement to include persons already in the sample. As you may recall, last year, with some client cooperation, Nielsen initiated a two-year pilot test.

Step one was to determine if measuring extended home viewing was even feasible – including vacation homes, and more challenging, college dorms and other student locations. Could such samples be successfully recruited? Could the People Meter system be installed successfully? The first part of the test has been successful.

The next step is to produce detailed audience ratings – with and without extended home viewing – so Nielsen and our clients can judge the impact of the additional viewing from these sites.

### **Global Technology & Information Center**

I would like to introduce you, electronically speaking, to Nielsen's new Global Technology & Information Center. Located in Oldsmar, Florida, just outside of Tampa, the Center is one of the most tangible expressions of our commitments to



you and your businesses. It is quite literally the concrete embodiment of our commitment to the future. Even before four hurricanes hit Florida in one season, our new facility was designed to withstand the impact of a Category Five hurricane. Despite some tense moments last summer, we were able to live up to the “No Time Out” pledge during those meteorologically turbulent times.

From this Center we currently process more than 10 million viewing minutes each day from our metered homes and turn them into the viewing information that you rely on.

The transparency of our business is evident in Oldsmar, and I invite you to visit this world-class Center.

### **The Future – Together**

The process of improving television audience measurement is a shared experience – shared together throughout the history of television. I am confident that this model, involving research professionals with a shared goal of improved accuracy, is the best way to ensure genuine quality advancements.

We must stay ahead of technology, adapt to changing demographics, navigate the introduction of more personal devices and targeted advertising, merge different data sources for a fuller picture of the consumer – and do all of this while maintaining confidence in the currency. The tension between stability and change will be even greater over the next three years. The balance between advertisers demanding more granularity and accountability, the traditional metrics of audience measurement quality, fragmentation and cost will be very difficult to juggle. This difficult process, while all of us have less time, will make the business more challenging than ever before.



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We are committing to our investments, ideas, people and process to move the business forward. You will hear even more about this in other presentations in this meeting. You will hear about technology, demographic changes and research plans – all leading to better information about television. At the end of the day, we will have an open forum for questions.

When our clients succeed and thrive, we can be successful. Working together, we will grow, adapt and innovate. I look forward to the challenge.

Thank you very much.

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