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MANAGEMENT DISCUSSION SECTION

Diane Schumaker-Krieg
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Good afternoon, everybody. Good afternoon. I hope everyone is enjoying their lunch. I'm Diane Schumaker-Krieg, Global Head of Research and Economics and Strategy for Wells Fargo, and we're delighted to welcome you to our Technology, Media and Telecom Conference.

We can't tell you how much we appreciate your being here in the midst of nor'easter following the hurricane. And hopefully, locusts, boils, frogs and bloody weather will be next. I especially want to thank my Wells Fargo colleagues for their tenacity in pulling this conference together in these unusually trying circumstances.

It is my great privilege to introduce Dave Calhoun, CEO of Nielsen. As most of you know, prior to heading Nielsen, Dave was Vice Chairman of GE and led many of their most important businesses including their infrastructure business which he grew to over $47 billion in revenues.

Dave is co-author of a wonderful book, and if you can only read one business book this year, this should be it. It's called How Companies Win, and it introduce – it's fabulous. And in fact it's so fabulous that I asked my assistant to try to find a hard copy at three locations at Barnes & Noble. They're all sold out, and the book is on back order. It's really a great book and it focuses on a demand driven business model. That's some of the most successful companies in the world are using to beat the competition.

Dave also sits on the board of both Boeing and Caterpillar. He begged me not to introduce him as the legendary Dave Calhoun, so I will just introduce him as Dave Calhoun. Thank you.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

Standing up here I think I'm wired, so I may walk around a little bit. Diane, thank you very much. You did, you failed the test. What I was asked to do or what I'd like to do, I'm actually not going to give a company pitch. My CFO Brian West is here if anybody would like to hear that one.

But what I am going to do is use our story and some of the charts here to maybe just reflect on why we do what we do and what we think is going on in the markets that we serve and sort of what's important and what's not.

And I thought maybe even right up front, I should just characterize the environment that we are working within right now, which of course is being affected by every day's events and clearly by last night's events. So two industries that we really serve all day, everyday onsite so we do get a feel for how they operate.

The first is the big consumer packaged goods industry. The Procters, the Unilevers, the Reckitt Benckisers, the Nestlés , the Kraft's, et cetera. And so we live with these folks and we watched them in their planning environment. In many ways, we provide significant inputs to those planning environment. There is no question that everybody is in a bit of a scrap it down mode right now. They've been there for a little while. I think the tail end of the third quarter sort of brought some clarity to that and I think the notion that they expect a very limited demand sort of environment out there next year.

Different this year than past, pretty much everywhere in the world, pretty much everywhere in the world. So, whereas before you had this wonderful geographic distribution of developing economies blowing it out and anybody with a global footprint running hard at that. And then the developed world, you can sort of maturely move along. Right now, I think everyone is sort of scrapping in for even a developing world slowdown which they've already experienced and some difficulties sort of bringing themselves back up, so difficult planning environment.

Clearly in the media world, similar. So you will know the political ad spend is over. I think we also know that the competition and the fragmentation of the industry is sort of creating now a multitude of opportunities for ad placement, all those other things. So the competitive environment, which is always rough and tumble is going to get even more rough and tumble. And so, I think even in ad space, there is a fair amount of conservative planning although that crowd would never admit it ever. So I just think that's the world we're in.

Now, it's interesting, consumers are a little more upbeat than that. But it's very fragile. I happen to think if the world could get its act together, consumers would provide quite a lift and particularly in this country. So you saw some lift in our confidence numbers and pretty much everybody who measures this subject toward the end of the summer and most recently. Almost all of that is derived from their own balance sheet improvements.

So, the stock markets or whatever limited investments they may have had feel a little better. The mortgages, payments are different. They've repaired a lot of their debt issues and they're a little less worried about the next job. So it's not the overall employment rate that affects attitude, it's the next job. Is it going to get worse or better? And if you think that whatever level it's going to get better, your attitude is much better because you happen to have a job. And so therefore you're probably not as at risk.

So, these are the things that affect attitudes and attitudes were pretty good. Now there's one big overhang and we never use to measure this as an overhang because it never came up. But the debt issue that got introduced, the big national debt issue, and the debt issues that Europe is dealing within others. In a consumer confidence survey, this would never show up ever. Wouldn't matter to anybody, because they assume that New York figures that out, right. The banks figure that out. Players that are undetached from them figure it out.

But they have now figured out based on of course the big fistfight that happened. The last time we tried to raise the debt levels, because of that fistfight, because they watch Europe start to really dive and because a lot of local public employees were being both laid off and losing pensions in local communities, they started connecting all the dots.

And now, it's always on the register of concern and it's always a priority issue. And if the debt issue and the election don't sort of begin to resolve themselves in some way, shape or form, the overhang is going to in fact continue, and it's going to depress. There's no doubt about it. And if it gets worse and there's another big fistfight that looks anything like the last one, it really could have a significant, in my view, almost devastating effect on confidence, which otherwise I think would be in a pretty good shape.

And then if you go around the world, where confidence has been slowly declining, broadly speaking, Europe of course everybody knows is in the doldrums, it's probably not worth talking about and I don't think it comes out next year, again, it's planning for it. The big swinger I think is the rest of the developing world and including China. China's confidence metrics are pretty good. They remain robust. The question is, is domestic demand going to be big enough to offset everything else or will everything else export and infrastructure development will that drag down that consumer confidence. They haven't yet, but that potential exists. And it's real and I'm an optimist on China but those dynamics are happening. That's why I think we have such a conservative approach to the world going on right now.

Let me just comment on a few things in our world. I don't see a thing to do this – what do you got? You are going to read that? So just a comment about sort of our mission and why I think it's a little bit indicative of the time. So our job is to provide the most complete understanding of consumers. I use the word complete, we use it, because it includes what they, everything they consume on a screen which affects or ultimately affects behavior and then what they do in a store, how they shop, what they do. So watch and buy.

And our view is having both is essential to the world that we're going to, more precise advertising, more effective advertising, reaching people at the retail level, mobile advertising. All of those things require you to have a complete understanding of both sort of what they're listening to and what they're being influenced by and then ultimately what they're doing in the store.

Secondly, the values here, forget us, you can't survive in this space if you're an agency or a marketing information company or a research company, whatever you want to call them, you can't survive unless you are willing to integrate everything you touch, everything. Which means you can't just create your own little secret sauce and do something really discrete with your own data and nothing else and then go dominate, dominate the world. It just doesn't work that way.

Clients have too sophisticated world, big data, you've heard the term. Nobody quite knows how to describe it. But what it is, it's a collection of a million different sorts of data and the job is connecting those sorts of data in some way, shape or form, to provide a discrete insight for an operator to act on. And if you don't live by these kinds of values and principles, open, again, simplifying the complex, and/or integrate, if you don't live by that, you're probably not going to survive. So I would argue, these are market values, and yeah, we try to embody them.

And then finally, with respect to just us, we're in fistfights with clients everyday, because we do hold these values high. We consider ourselves to be objective. We're not out there to satisfy every client and every opportunity if the measurement or the audience, right, or the retail market share that we tell them isn't telling them all great things. And so we're in battles all the time. It is the nature of what we do, but it's important in a measurement world to sustain that objectivity.

Just sort of the fundamentals, I think I described buy and watch is important. And the other one I think is fundamental is in our world, CPG industry, global multinationals are the – they rule the roost, and they're going mostly – we've sort of followed them sort of west to east. Now they're all coming back the other way. We're creating new multinationals in Asia, in China, Korea, Japan. Being big and being global we think is a fundamental competitive advantage. I think anybody who doesn't is going to have a hard time.

Mission critical, we talk about a lot. Mission critical means, does the operator in the store use your data and does the CEO use the data. And I'll show you a little bit of a description on sort of how that works. But synchronizing the use of market-based data, if you can't synchronize in your own world, that's useless. You've got to get it from the strategic decision all the way to the operating decision.

In our view, we've got some wonderful organic growth opportunities which I'll comment on. And again, heading into a sort of a difficult scenario year, the one underlying part of our business which is a little over two-thirds of our world is the piece that always shines simply because when shit hits the fan, everybody wants to know how they're doing. And they want to know every week how they're doing. And they want to know, both their audience which are on the media world or their market share in the CPG space.

This is sort of a description of our company on the buy side and the watch side. On the buy side, it's mostly again built around CPG, retail sales measurement, again market share. In the 2008, 2009 timeframe for us, it never dropped a penny, right. As we head into this difficult time, it's actually doing as well as it's ever done. It's actually one of those things, again, knowing how you're doing is a big deal when things get a little rough and tumble.

For us, again it's CPG and retailers. The thing I want to comment here is there's definitely a shift of power going on from manufacturers and manufacturing brands to retailers and store equity, store brand equity. There's no doubt about it. Store brand equity and the investments we're making in marketing and brands is actually working. It's not the old private label world. Anybody thinking about it as private label is missing the boat.

They have real brands built around real value. They are very rarely the low price point and are all working at equation to the upside and that competition directly with the CPG brand is real. We highlight Nestlé, almost all of our customers are repeat clients we sign and the relationships are long and the contracts are long.

On the watch side is that audience measurement, and I'll talk you a little bit about what that is, because there's only certain aspects of measurement that I believe can ever become currencies, which is the way people describe our audience measurement, meaning it's traded, buyers and sellers everyday trade on it. There's only so far you can go. It's never enough to satisfy advertisers and I'll describe to you how we think about that.

And again, we help sort of all aspects of the media companies. We highlight CBS as one of these. But increasingly, we're moving from the formerly big media content companies you'd think about to the publishing world where in effect it's a website and publisher content and programming that's taking on a big measure.

This is the company that we have, that's the only financial chart. All I want to say is, it doesn't explode in growth but it always has it, and it's compound, and it's a wonderful thing to have especially if you lean into a rough and tumbled world whether it's the media side or the CPG side.

Global footprint. Only comment I want to make is with respect to what's going on in the market. Again, we follow western multinationals to the developing world since the beginning and all the deals in legacy families did a wonderful job. And what's now beginning to happen, of course, is the company multinationals or I will say companies that aspire to be multinationals moving in the other direction. That's a wonderful thing for us, but it also is going to increase the competitive nature of a lot of industries that of course you guys follow.

The trends for us are simple and the things we try to wrap our development money and spending around are pretty basic. So you guys all know the numbers I think. But if there's one number that's going to affect you and your kids and their kids, it's population growth. It's really simple, and it is – it's as real as can be, and that notion that these governments are going to have to move them into the first time consumption mode and then into the middle class, it's real. And I always just like to say that all of human history, to get to almost 2 billion folks that we would consider to be in the middle class, all of human history and in the next 20 years, we more than double it.

So that's what's going on in our lifetimes and that's what we're trying to prepare for as we try to measure all of those big developing economies and get ready for them as first time consumers and then ultimately their development into the middle class. Separately, in the developed world, the forces of immigration are fierce and they're going to get fiercer and all the things we sort of look at with respect to Hispanic growth in this country, women as sort of the – becoming really breadwinner and decision-maker at almost sort of all aspects of life, these stuffs happen in real time every day. And for us, there's a big analytics opportunity even in the developed world that feeds our company.

And then secondly, in the other side of our space, watch, as everybody knows, this has been a sort of a wonderful industry if you want to measure change and technologies impact on that change. But we started in the black and white television. We started in radio before that. And we've worked our way through every one of these major transitions. And so when remember set-top box was going to be sort of the call of the day and the day you are out of business.

Of course, the reason you weren't is because we don't measure any single form of distribution. We don't derive our data from any single form of distribution. We measure consumption. We have to recognize every single signal that hits your screen and we have to measure it instantly and report it the next day because it's the dynamic between channels, between distribution arms that people are most interested in. That's what all the CEOs of all of those interested parties are planning for.

And it's really that development dynamic that we work on. And so we have to stay attuned to the changes in technology. But for one reason and one reason only, recognize the signal that hits your eye, right. Recognize exactly what you're watching, who distributed it and what that content was. And that's what we do and to do this day, we are very good at it and we measure all of it, whether it's IPTV, or whether it's satellite set-top box or believe it or not, the growing thing that we used to call rabbit ears, right. Believe it or not, that's a growth industry.

And on the right side, it's sort of the notion of video and the expansion digital, including both online and mobile is real and it's big and it's additive. It's additive. More screen time, right, more audience across the board.

Here's the comment, we use this when we're promoting the company as sort of – it's nice to have a leadership position in all these things. The comment I want to make goes back to the values. What's important here is it isn't sort of the – how any one of these things does. It's how they work together. It's the linkage of the data from retail measurement across media, across – that is what delivers value to an advertising campaign, which pays most of the bills. And it's that notion of interconnected, integrating to sort of bring more insight to our clients. That's what matters.

And as I said before, any single player in any single arm here will have a useful life and it will be short. And I believe that. It will have a useful life and it'll be short. And there's a million, so do I watch the capital calls and all the folks, so all of a sudden come up with this wonderful single form of data that will enlighten everybody until it doesn't. And then all of a sudden, it's fleeting. It moves away and we go to the next big single form of distribution, next single form of data. So being interconnected, being the integrator is a big deal and you have to have a company that's willing to do it and open.

This is the way we think about our company. These are the buy side clients like Nestlé or Kraft or Procter & Gamble. We do things with the executive side where they use our market share data to plot their strategies. Of course they do. Where are we going to gain share, where are we not going to gain share and I want to pay you on the basis of whether you did or didn't blah, blah, blah.

So you have to get that theme. You got to work that as hard as you can, but then you also work your way through every other organization which is sort of brand and marketing. Are you hitting the right consumers with your advertisers, do you know the effectiveness, all of those things that matter around the big advertising spend and then on the lower right side, the people who are serving retail all day long, you've got to have the same data and the same focus and alignment around what's the promotion, did it link to the advertising, right, is it enough to beat the other guy et cetera, is the price right et cetera.

So we try to embed ourselves in all aspects, all the dimensions here. And for us the secret to success isn't dominating any one of these things, it's synchronizing all of them for the benefit of our client. Show them where the touch points are, synchronize them in a way, make sure that they intended consumer for pampers. It's exactly the audience you're reaching with your new digital advertising, right. Make certain of that. Those are the opportunities that avail themselves when you think about synchronization of advertising spend and the data, market data that we provide.

And on the media and watch side, it's a very similar set of things. They have audience polls, they have objectives on what they do with that, they know who they want to get. Increasingly, interestingly programmers are interested in, not just the demographics but the characterizations and values of the audiences that their shows are intended to serve and why because in the end they are uniquely positioned against some set of brands out there and some set of products.

And if they know a lot about their audience, I mean a lot, they're going to go out, they're going to command a significant premium to the marketplace in selling certain shows and certain audiences, and that's what they work on. And believe it or not, programmers hate that discussion because they hate the show, right. I don't want to serve a particular audience. But increasingly, the business model is forcing it down that path and we're starting to see more and more utilization for that purpose.

In an agency world, advertiser world, targeting for me is a, I don't like the word because I don't think the realization that everybody counters up in their head is ever going to happen. I don't think there's going to be wonderful big targeting market or any big winners in the targeting space that are going to dominate. Precision on the other hand, the ability to buy more precise audiences and to teach sort of the big buying community, how to buy more precise audiences and to link them and synchronize them with both the sort of that, the paid media along with earned media. That's where all the – That's where all the action is and I, sort of I believe that to my toes. And then of course every single sales and marketing organization in media wants to dress up their audience in some way shape or form to get a higher price and/or a sort of quick, quick, quick move into the market.

Here's just a way to think about the world of marketing information and metric. We always aim and we try to build a metric that can be a standard for the industry that can be traded every day such that it makes the industry more efficient.

So digital advertising has never had it ever, right? Almost all digital advertising is placed on a basis of audience estimates – absent search. Forget search for a minute. Search is its own very unique, very effective thing. But absent that, display advertising, hidden video advertising and all of these things, it's not an accountable metric. You buy an estimate. You could be a mile off the estimate you probably never know it, right. And you can't buy or get a guarantee against that audience that you went out and you bought.

So our job is to create a metric which we refer to as online campaign ratings for the digital space that is nothing more than a reach metric, right? It's not meant to measure sort of how effective [ph] – or let's say (23:47). There are other ways to do that. I'll talk about that. But for us, reach is the only thing, the only metric that can be traded on, measured every day, traded the next day, audience is guaranteed, et cetera.

And that's what we endeavored to launch about a year ago, and I think we're making real progress. I'm very pleased with where we are.

Always remember, we never determine whether it's ever a currency or not. The market does. The market decides whether they want a guaranteed audience. The buyers decide whether they can buy a pool of audience and guarantee against it, as in the agencies.

So that's the game that we're in. We think we created a spectacular metric, we like the uptake, and we think it has a chance. But we don't get that call. We have to let the market do that.

Resonance, how effective was the advertising? Lots of – this place is the most crowded place in the world. You can measure it in lots of different ways. This will never have a standard, I don't believe. A customer would might create a standard for their use. But I don't think it's capable of doing standards.

So we have a wonderful business here. Margins are roughly half of what anything would be in the reach world, but – and we love it because we add value to our clients.

But we all have to be careful about what it is, right? And where it's likely to sort of play out. For us, it's a wonderfully complementary thing that we do next to our television metrics and our digital metrics. But that's the way to think about it.

Then finally on reaction. What do they buy as a result of the campaign? That's linkage of the real retail data with it, and we have a lot of means by which we're doing it, and it works.

But this is the discussion that gets had in our world, in our industry. Unfortunately, most discussions go down to the bottom because we all know that's the panacea, right. That's the wonderful thing. If we knew the reaction to every ad dollar spent, great.

The problem is, don't ever think there's going to be a standard on that metric. Know that everybody's going to tackle it a little different and link different data sets to get to the most effective way of measuring.

Audience measurement again is a standard. I talked about this. Here's the comment, and it relates to multimedia. [ph] Without these TV ratings thing (26:00) – it does demos – it does – it basically says this is who you reached last night to the programming world and the content guys. And then therefore, it determines a price tomorrow for that property.

And we've done exactly the same thing for online campaign ratings, which are the first time this has ever been done. Where you can actually go out, find out exactly who got – it was delivered to – and you can go back to your publisher, call him up and say I didn't get it or I did. I need you to make good. So we created it.

And we designed them to be complementary so that we can do the thing on the right. Something we call XCR, which we may never merchandize. An agency will merchandize it, or the market will merchandize it.

But what it does is it takes the two audiences and it determines that unduplicated region. Right? It's not just – it's not you add the two together. There's an awful lot of overlap, and it helps us get to that. And it solves for that.

And that's the way we go down this path. Strictly reach. Because in my view it's the only thing that ultimately is efficient enough and clear enough that can get traded on.

And then finally, I probably won't belabor this one. This is another – the subject is open. To get to residents and reactions, I don't have enough data in my world to satisfy that, and I got a boatload of data. I'm probably one of the big data guys, if that's what you want to call it.

So what do we do? We link other stuff. We link other stuff. Our OCR product and what we do was largely dependent on registration data in the Facebook world. They're doing it for their own reasons and their own interests, and it's helping them.

In the Twitter world, we have a similar linkage. And then we have another big data resource in Catalina, which is in effect 60 million households of all retail transactions, and we get to see them overnight. So we get sort of an instant reaction.

The point is, you need to be open, you need to consider other data sources to link with your own but ultimately deliver these kinds of products, which we love.

So this is it, with respect to growth objectives and I'll turn it over to Eric. We invest in the expansion of coverage. And first of all, think about it as geographic. All that developing world and all those brand new consumers and all of their development in their middle class.

We invest in cross-platform. Precisely along the lines I described. Mostly reach. You can decide for yourself whether that's enough. My view is it is, and it's the economic model we like and we'll move toward.

And then finally, precise advertising placement is around the linkage of data. It is knowing exactly which program indexes to your brand and then to be able to buy that program at exactly the right moment such as you can do it. And/or by the program and collect all the earned media you will get through digital display and video advertising, as well. And so it's that notion of synchronizing and connecting us, that's what sort of gets you to the end.

So that's how we think about our growth objectives. Those are the things we try to sort of build our investments around. And I would submit in this industry that we serve, that's where most people have to go. I don't think it's a sort of rocket science [ph] been thinking about it. (29:11)

Okay.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

Is this working now? All right, thanks.

My name is Eric Boyer. I'm the analyst, covers information services here for Wells Fargo.

Thanks again, Dave, for participating. Great insight into the consumer and the different, major trends going on in the media world.

With the Facebook IPO this summer, one of the topics that came out of that, which is top of mind right now – the major hurdles for the monetization of the mobile platform. Can you just talk about where Nielsen plays in that, and where that whole dynamic is, and possibly a timeline for when the industry can kind of solve that riddle?

David L. Calhoun

Chief Executive Officer, Nielsen Holdings NV

Yeah. I think there's two things. I'll just cut – first, I'll say I think there's two things that are sort of happening and dampening a spectacular property in Facebook. One is just the effectiveness of display advertising, number one. And then number two, I do think it is sort of that mobile reach and the mobile use. I think – I don't know in what proportion it is sort of affects sort of the future. But I think both of them have at least equal weightings.

With respect to mobile, we still view it as a nascent, very nascent market. So it can be measured. That's not the hard part.

The fit and function of a display ad and/or a targeted ad on the phone is still a big challenge for the industry. It's not been solved. Most of what you get is clunky, clunky, it doesn't work, the timeliness isn't what it should be.

Those who have solved for it have solved on it for in such a micro scale, it's hard to rally around. And then when you look at the – how do you scale it – it doesn't – it just doesn't quite work.

So I think we have – it's going to take much longer than anybody thinks to assign value to the advertising on a mobile phone, and particularly, its location relevance. Because that in the end is its single – its really its single biggest form.

It's not just the fact that you reach more eyes and so forth. But it's – if you're in proximity to the targeted ads intended, then that [ph] spells mother. (31:23) I will tell you it's happening at an incredibly fragmented, splintered and micro level. And I'm really worried about whether it ever sorts itself out.

We will measure it every day, all day. But I will tell you, it's hard to get everybody's attention at least, at this stage, on the size or scale of that opportunity.

And I think Facebook's sort of have to lean into exactly that. They need the industry for mobile advertisers to develop. They can't do it on their own. They just can't do it on their own.

Eric J. Boyer

Analyst, Wells Fargo Advisors LLC

Well, keeping with the social media topic, you mentioned it a little bit it during your presentation. How do you see the relationship between paid and earning media evolving over time?

David L. Calhoun

Chief Executive Officer, Nielsen Holdings NV

Yes. I think it's huge. Everybody knows – we started measuring simultaneous screen usage in connection with our TV measuring panel like six years ago. And the number started small, they were growing. But now it's the dominant. That's dominant activity. All of you watch TV with another screen in your hand. And so that notion of simultaneous usage, it's real and it's becoming the norm not the exception. And I wouldn't even get caught up in the growth rate of it.

My own view is, and I counsel, advertise CMO communities all the time on this. It's never about one medium versus the other ever, ever. It's not TV versus online versus mobile, it's none of that. It is synchronization. It is, you have to plan for exactly the right media spot on the television and then you got to make sure that it's reinforced immediately on whatever digital format you have.

And then you've got to allow for and measure the earned media impact from it, which is, mentions in Facebook, Twitter, et cetera. And as you really think about effective campaigns going forward, it's going to be that aggregate number. If you're an internal and you're a CMO, you're going to hold your organization accountable for, I got my reach on TV, this was the sort of the simultaneous advertisement on whatever digital vehicles I have and then this is what I earned. And that earned piece of it, it's going to have a lot to do with success or failure of CMOs and agencies and everybody attached.

Eric J. Boyer

Analyst, Wells Fargo Advisors LLC

Okay, great. You talked a little bit across platform, but that seems to be one of the most exciting things about the Nielsen story right now. I was wondering if you could just talk about how that is going to change how advertising decisions are actually made.

David L. Calhoun

Chief Executive Officer, Nielsen Holdings NV

Well, it's really the same theme. I believe that in the not too distant future, right now it's episodic. It's already been done, but they are not too distant future. Campaign managers will be buying blended audiences and they will have a blended guarantee, and the agencies will figure out creatively how to do that to their own benefit. They will arbitrage somehow, some way by means by which they give a blended guarantee of a TV and digital audience and they'll make good on that guarantee the day after. And I think that's where the market's going.

And I think – we've already had a couple of the big agency folks understand that and move in that direction. It takes a while. The longer development cycle is the buy side of it. In other words, having advertisers comfortable that they can and will do it and that they can cede some control of that multi-medium to the agency world, but I think that's where it's going to end up. I really do.

Eric J. Boyer

Analyst, Wells Fargo Advisors LLC

Okay, you also talked a lot about analytics throughout the presentation and I think we saw a pretty good example last night, you watched the returns and seemed like the Obama campaign did a pretty good job as far as micro-targeting voters that possibly have never come out to vote before. I was wondering if you could help us understand how Nielsen is using analytics as far as the investment management tools that you're helping your customers develop.

David L. Calhoun

Chief Executive Officer, Nielsen Holdings NV

The Obama campaign, last time around we did a case study on it versus the alternative campaign, the other campaign. And the distance between one and the other was unbelievable – just in terms of reach, scale and I always, I've never shared it broadly publicly and I won't but I have shared it with my business counsel friends and it really is startling. And this year it got bigger, the gap, significantly bigger. And I believe it's the difference between winning and losing. I just do. So I think it's a huge, huge, huge deal. And I think that the lessons for business are also significant. So tell me again where you want me to go with that?

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

I was just, the specific tools that you're helping with the investment management part.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

They are always a little different than just campaigns. Analytics for us, it's a wonderful business. It correlates in our business very tightly to the information we serve the client with. So it correlates to our audience measurement data that we report audiences to and it correlates very tightly to retail measurement in the CPG space.

And almost always what we're trying to do is build a tool that either connects our own data, but most often points in another source of data that will allow them to promote a little differently, get a little more aligned on their distribution outlets and the advertising dollars that they want to spend against those geographic regions. And it's really – it's creating precision with analytic tools and creating competitive advantage with analytic tools, price promotion, usually in the price promotion arena. And like I said, it correlates very tightly to our information businesses.

Usually when we're out there competing for, we think about it as it's roughly a step up in value added to our clients. You may like us more if we do one because they're going to go take a strategy and do something. And they – so they love all that. The economics for us are pretty good. They're not quite the same as what the information business is, but they're pretty good for us. It's all additive, so we love all of those aspects.

But on the flipside of that one, analytics is one of those when a business has momentum, it runs really hard with analytics than when it does and it sort of drives back and it usually compounds the problems. That's my own view of analytics. For us, you almost always have to import data to a great analytic. You have to find it somewhere that adds another angle, another dimension to just normal course retail measurement or normal course price. You've got to sort of make it relative to either the user community you're trying to serve or the particular retail channel you're trying to penetrate. And then you almost always get the corporate to something else.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

Along this line, the changing demographics trend that you talked about, how is Nielsen adapting to that and then what are you telling your customers?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

Well, we're always reminding them that the portfolios and the consumers that they serve today aren't going to – they're not going to be the same in 10 years. And so what you do is you measure a portfolio against the next 15-year demo. And what you find out is you have certain things tailored to certain parts of the sort of the demographic profile that just aren't going to be relevant. They're going to slowly have to slow, right, going into 15 years from now.

The biggest one for us is the appreciation for the Hispanic influenced community and the dramatic different approach that they take to buying the values that they use in the way they both buy and watch and interact with audience and TV. It's different. It's just different. And who would guess radio is really relevant to that crowd? Who would guess – there is a lot of stuff that is unique to that big shift that is totally underappreciated. Why? Because it's the boiling water thing, it comes up slowly and – but then all of a sudden it's there.

And where almost always that's the advice, it's – let's prepare for this big change and let's understand that the portfolio of products that we've been living off of probably has to change somewhat, right? And it probably has to sort of run harder at that audience. And then secondly, it's just the precision with which you advertise to that crowd is – there is huge opportunities, huge opportunities. And we're just in the process of educating and then hopefully teaching them how to buy against those opportunities.

Diane Schumaker-Krieg
Analyst, Wells Fargo Advisors LLC

OCR, XCR, can you help us explain the financial model with both of those because I think you both – you went commercial with both of those fairly recently.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

Well, yes. They're the same. It's OCR because OCR is a model – our objective is build a perfectly scalable model like we enjoy in television. In other words, no matter how many campaigns you throw at it, no matter how much programming you throw at it, the model simply is a model. It runs the tags, it bumps up against the registration, it tells your audience and the cost of every next ad is miniscule. And that is the way we've built it. That's the way we think about it.

We try to establish an early pricing arrangement that would get us to where ultimately we need to be in a TV model, but not all the way there because you want everybody to experiment. You want to them in, you want them to get used to it because for us it's – when it becomes a currency, if it becomes a currency, and the industry elects that, of course, that's when the model really gets robust in lots of ways. Our ability to price into a currency is different as opposed to a – just a metric.

And so – you guys can all imagine, counter up your models on how that works, but the design is meant to be exactly like that. And XCR is nothing more than an overlay of the two. So it's – it really is just those two fundamentals and then the overlay is reasonably easy because they were designed to the overlaid.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

You're having the dominant position really on the watch side, on the TV inside. How is the competition for products like XCR or OCR or things people are trying to do around those realms?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

I will call it – we don't have any face-to-face competition. Anybody evaluates the products, we just don't, but we have alternative competition like tons of it, right. So the – listen, we replaced the tool that we used to have, which was a tool for estimating audiences, which still exists out there. We have one and so do our competitors. And then we also fight against a myriad of captive metrics. Every publisher thinks they've got bigger, better, richer data than every other publisher and they're outselling it all day long. What I am sure of is that that won't last because outside of search, it's just not trustworthy. It's – any company trying to self-promote, it becomes so obvious so fast that advertising side of the world is always going to prefer an independent metric.

And then secondly, the accountability that OCR provides is a first of a kind and it measures it. So in television, think about sampling, as you sample 2% or 3% of the world and you then extrapolate the universe, and by the way, it's widely accurate. It really does work. In the OCR metric, because it is so fragmented, we basically sample almost half that audience. That's how much we sample. So the vitality of the metrics and the reach with respect to highly fragmented publishing sites and interested parties is really unbelievable. And so it is a new metric for a new world. I think the design was spectacular. And now we're just trying to teach people how to use it, right?

It's a – if you can't buy a guaranteed audience yet, you might not use the metric, right? But what you will do is you'll learn how to use – you'll learn the metric, and then if you're a big enough advertiser, you'll tell the agency world and others you're not going to buy unless you get a guaranteed audience. We need all of that to unfold and we need that to become the norm. And when it does, then our model really starts to extrapolate well.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

And the one thing I try to stress to investors about that point is it's all incremental revenue for you.

These are new opportunities.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

Yeah, totally.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

I mean, the TV is going to be there.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

Yeah.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

I mean, gradually, over time, maybe the value of that product goes down, but that would be glacial.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

This is all – it's all – again, it goes back to screen time. It's just the audience is – they're just getting bigger and the screen time is sort of unbelievable. I, as a parent I just can't believe it, but screen time is unreal. It just is a big number and it's getting bigger.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

So on that fragmentation topic, how do you see kind of the different constituencies, the dynamics they're playing out over time?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

I don't think it reverses. I don't see a big consolidation play anytime soon. I saw a – I think this fragmentation continues to go on. I will say this, in television, great content players will always have a place and their beachfront is always going to matter. If you want – if you wanted a bigger earned media hit, really wanted one, there is nothing quite like a great ad on a beachfront property to make that happen, all right.

And marketers are not confused by that, right? I think what gets affected is all of the less than beachfront, right? A lot of things are going to have to happen.

The trading of the sort of the long tail of fragmented advertising, even in TV world, I think the trading of that is going to go straight to the – sort of the e-world. It's going to be traded sort of simply, low cost.

And the agency role in that – it might be the whole bottom half of all advertising – I think it's going to be depleted significantly. I think that's just going to be taken over by the Googles of the world and others. It's just going to have to be done more efficiently.

But the fragmentation with respect to signal and distribution, I just think it's going to continue. The challenge for us always is to make sure that sampling is robust enough to capture the long tail, right? Everybody is going to want to be measured, because that's how they're going to collect revenue. As long as I can continue to do that sampling in a way that keeps me focused on the long tail, it all works.

And that's a lot of – like for instance, the design of OCR was designed with a long-tail world in mind, and it really works. It's pretty amazing.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

Another one of the more exciting aspects of Nielsen, I think the longer-term story is the advertising effectiveness solutions that you guys are building. You mentioned it a little bit at the end. Could you kind of just frame up how big that business is for you guys, the growth rates there, and where is that going?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

So I mean – Brian will shoot me if I get too specific here. But that space for us, probably a couple of hundred million dollars, it grows very healthy and it will continue to grow very healthy. This is our – there's a big community over here called targeting. We'll call it precision. This is all about more effective, efficient buying of advertising and being more precise. It's the linkage of an audience with a brand, simple as that.

And you have to be basic in both, you have to understand both to be able to make that happen and you've got to – you have to be able to teach the advertiser how to buy a more precise audience. And we play a role in that because our currency is involved in that. And so, that's the way we like to approach it and we think we're uniquely advantaged with that.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

Okay. What do you think is the most misunderstood or underestimated part of the Nielsen story?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

The infatuation with distribution-based metrics. It just doesn't compute. That's not what we do, never has been.

What do I mean by that? In the watch world, it was set-top boxes, and now everybody is worried about set-top boxes going down, not up, and IPTV taking over, and blah, blah, blah.

It's not about any single form of distribution. It's measuring all forms of distribution. You have to start with consumption.

And that's what we do. And that's why measurement science and the approach we take with measurement, it gets more relevant not less.

Now you have to make sure the science is always up to snuff, and the reach of your sampling is enough. And the designer products like OCR gets you those kinds of big sales. These are – this is what we do every day, and this is what we do all day, and we're the only ones that do it.

And to try to keep up with the different forms of distribution, the programming changes alone, the different advertising pods that are put into different programming choices around the country, every day, all day – our apparatus has been set up to keep up with all of that because we have to provide the overnight metric.

And that's how we grow our capability in relevance. If we fell behind on that, that's a bad day, right? But we don't, we can keep up with it. And as I said, the [ph] measurement size (49:17) is, in my view, perfectly applicable.

And the only other comment I would make is it's exactly the same in e-commerce. It's exactly the same for the Amazons of the world, and every other form of e-commerce. We have methods by which we measure all forms of retail.

It doesn't happen to include all the retail data that Amazon has. They're not prepared to do that yet. But we're in there. We work with them, we help them with their own strategies, and we have tools and techniques – panels, things that we do that give very accurate pictures to all the brands about what Amazon means to them and what that form of distribution – how it ought to be thought about.

And so for us, it's never one rich data source versus another. It's being able to handle all of them. And if you want to dig deep into one form of distribution, our job is to make sure it is perfectly complementary to what we've represented as the audience.

And if they want to go dig deeper and get precise with advertising opportunities and other things with the cable channels or whatever, they can do that. And there is a complementary data source to be able to do it. But that is different than what we're doing. And I think that's fundamentally misunderstood.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

We have a couple more minutes. Maybe we'll open up to the audience for a couple of questions.

QUESTION AND ANSWER SECTION

Q

Well, you said in aggregate that the contracted revenues never fallen in a year. When you look contract by contract, outside of company-specific issues, have there ever been cases of revenue falling from a specific customer?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

A

Usually what happens is I think what you inferred in the question. It is company-specific. So there are moments when – we had one over the course of this year. We had a reasonably big one.

So you have a major client who is having a tough time. They're not winning in the market. Pressures are severe, and they got to sort of rewind, get their act together, blah, blah, blah, all those kinds of things.

We're a supplier like everyone else. We happen to be a really big one, and they'll come to us and say, look, we need to reset the bar. We're doing a big restructuring of the company, we need you to help us get there. And that's what we do.

And in those cases, almost always, the down-take is the analytic work we do on top of the market-share work. So the market share work – like even in this one case, where we did take a reasonably dramatic hit this year, that underlying retail measurement number actually was very stable.

And then what they do is, they just get really, really discretionary about everything that they'd – all the analytics they derive from it. And our experience is, they reset and then within six months, they're begging for more analytics. Because they've reset the bar, the strategy is different, and they still want to win, and analytics helps them win.

And that is – we've been through that in my – I've been six full years now. At least one a year. At least one a year, maybe two, but not usually more.

And our – I view it a competitive advantage for us to be able to walk right in there with an open face and not fight them on it, and deal with it, help them and move forward. And that's what we try to do.

Q

[Question Inaudible] (52:17 – 52:19)

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

A

Probably. But I'd have to hunt to find it, which means it could not have been very significant.

Like for instance, Europe – the whole continent, the Western countries. It's been tough. It's been a war. Hasn't dropped. Hasn't dropped. Why? Because they want to know how they're doing. Got to know.

Q

The question I have is about mobile. We keep hearing from distributors and from content providers that they need to get a better sense of measurement out at mobile. I've heard a number of references from different companies and say, we need to work it out there, work with Nielsen and find out.

So what's going on with that? Because you did say if it's out there, you can measure it, but yet – so maybe you could kind of put some light -

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV
A

It's a – it's what we face always when we're trying to do something big. Just like OCR. There's a lot of dancing that went on before we launched the product, and there is still a lot of dancing going on.

And it's usually the industry interest. Who gets credit for the audience? Right? Who gets credit? Publishers? Whoever distributed the signal? Who gets it?

It is it's toughest in mobile. It is it's toughest. Is it the content guys? Is it the publisher? Is it Facebook? Or is it AT&T? Or is it Verizon? Right?

And I have to tell you the technology is by far the easy part, by far. And it's already solved. Not just us. You can solve that. The question is can you get the industry alignment and accreditation for the audiences lined up?

Now, sooner or later, in my experience, it will break favorably and there will be common metrics. But a couple of the really big guys who want to control it all are going to have to give ground. And they will. I believe they will. And there's already signs of cracking, but they're going to have to do it.

Diane Schumaker-Krieg
Analyst, Wells Fargo Advisors LLC
Q

[ph] And one last question. (54:30)

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV
A

You want to bet? [laughter]

Q

Well, along those same lines, I mean, with the industry dynamics, when does the industry move to C7?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV
A

I don't know the answer to that one. The industry decides that. And I don't – not as fast as you think. Not as fast as you think.

Q

For the same reasons?

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

A

Same reasons.

Q

Yes.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

A

That will be controlled more on the buy side than the sell side.

Q

Okay.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

A

Sell side interests are obvious. Buy side interests are much tougher and a little more discerning. And that's the way I think it will play out. It's easy to do.

Q

Right.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

A

Easy to do, yeah.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

Well, with that, I think that's a wrap. And I just wanted to thank Dave again.

David L. Calhoun
Chief Executive Officer, Nielsen Holdings NV

Yes. Thanks everyone.

Eric J. Boyer
Analyst, Wells Fargo Advisors LLC

[indiscernible] (55:03)