



Nielsen
Media Research

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To Clients of Nielsen Media Research:

As you know, Nielsen Media Research and Arbitron recently presented results from our collaborative testing of the PPM. Three small, controlled tests allowed us to learn through an iterative process of experimentation and analysis. This was appropriate given Nielsen's need to understand a fundamentally different technology and methodology. We gained valuable directional insights, but some important questions remained.

This letter outlines the key open questions and Nielsen's plan to address them before deciding whether to join Arbitron in the launch and accreditation of Houston as the first commercial market of the PPM.

Background

Nielsen did not participate in the 2002 Philadelphia demonstration market because we felt more due diligence was needed. After the demonstration market generated unacceptable response rates and unexpectedly larger audience estimates, Nielsen and Arbitron collaborated on a number of tests to improve and better understand the PPM. These collaborative tests took place in Philadelphia but were completely separate from the demonstration market.

The Dual Meter and Meter Sensitivity collaborative tests aimed to understand why the PPM produced significantly different audience estimates in the Philadelphia demonstration market. However, these tests' sample sizes were small and their designs were the first of their kind. Now is the time to better understand the PPM by improving upon those early tests with the benefit of both hindsight and new technologies.

Plan to Resolve Open Questions

The Dual Meter test estimated out-of-home viewing at 6-10% based on a very small sample of homes. While this test was underway, Arbitron developed a new "away from home" detector that is now being fielded in the Houston demonstration market. Assuming this detector's accuracy is verified by Nielsen's engineers, this Houston data will provide a much more reliable estimate of out-of-home viewing.



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The Meter Sensitivity test examined the spillover of encoded audio between rooms and its impact on viewing levels depending on whether we credited panelists in the same room as the TV, in an adjacent area either with or without a line of sight to the TV, or in a room separated from the TV by walls and hallways. The 20 home test indicated that spillover could be a significant contributor to audience estimates – possibly larger than out-of-home viewing, especially for households with 2 or more people. Unfortunately the initial estimates of spillover ranged considerably from household to household and were based on modeling assumptions of where in the home panelists were likely to be at any given time.

Given the limitations of this first test, we are in discussions with Arbitron on whether and how further testing can be done to better dimension the impact of spillover and the circumstances under which it varies. Such a test would improve upon the prior test in terms of both sample size and methodology, possibly including the use of new testing equipment that Nielsen recently developed. We also hope to reach an agreement that would allow the two companies' engineers to collaborate on future enhancements to the PPM technology.

Due Diligence Before Participating in Market Launch and Accreditation

An improved Meter Sensitivity test should answer fundamental questions regarding definition of viewing before Nielsen decides on supporting a market launch. Demonstration markets, whether in Philadelphia or Houston, are not designed to address such issues. Only after understanding the meaning of the PPM data can Nielsen participate in Arbitron's roll-out of the Houston market and its stated objectives: confirming consistency of results with a full market sample, accrediting the methodology, and beginning the market build of a new commercial service.

There is a short time frame to conduct our proposed additional tests given Arbitron's Houston timeline. We have until the end of second quarter 2005 to conclude the due diligence for deciding whether to be part of the demonstration market. By that time we will also draw upon other PPM data from Canada and the United Kingdom. But the most important source of data will be from our clients.

I want to stress the importance of an active dialogue between Nielsen and our clients on the PPM and the future of television measurement. The pace of technology presents not only challenges for audience measurement but also unprecedented opportunities for metering innovations. Evaluating its current and future potential for the television marketplace will continue to be a top priority for Nielsen and hopefully for our clients as well.



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Sincerely,

Susan D. Whiting
President and CEO
Nielsen Media Research

P.S. If you are unfamiliar with the recently completed collaborative tests mentioned above, please visit <http://www.nielsenmedia.com/forclients/ppmupdateaug04.htm> for the Joint Report released this fall by Arbitron and Nielsen.