Made to Measure

A mega-star at GE, **Nielsen CEO David Calhoun** has a simple plan for the TV ratings and consumer research giant: Make gobs of money for his private equity bosses (and himself), fend off stiff new competition—and oh, yeah, reshape the future of marketing and media. By RICHARD SIKLOS

UNDER BIG BLUE LETTERS declaring WE ARE NIELSEN, executives of the world's largest measuring company gathered in the ballroom of a resort near Fort Lauderdale for their second annual leadership retreat. Over two days in early January they trumpeted accounts won and targets achieved, and plotted Nielsen's plans for the year ahead, such as expanding its Internet ratings service into China. But a recurring theme was the company's need to improve—and fast—its spotty reputation with the clients that pay millions for its TV ratings data and retail market-share rankings.

In one moment of levity, a Nielsen sales executive screened a gag video of himself fielding a call from an irate customer, identified by the phone's display as one "A.G. Lafiey" (as in the CEO of Procter & Gamble). "Okay, okay, I know we're having some quality problems right now," the Nielsen man sputtered into the phone, attempting to defuse the situation. But by the end of the conversation with "Lafiey," he was sporting a black eye and missing a few front teeth. After the video ended, he asked the 200 chuckling men and women in front of him how many of them had been on the receiving end of such a call. Half the hands in the house went up.

Sitting in the front row in a zip-front sweater, intently scribbling notes on a white legal pad (he ended up with 22 pages of longhand), was the retreat's leader, Nielsen CEO David Calhoun. It s no wonder he was all business. Calhoun, 50, is a bullet of a man under the best of circumstances. But 18 months after he was hired by the blue-chip consortium of private equity firms—including the Blackstone Group, the Carlyle Group, and Kohlberg Kravis Roberts—that took the company private for $12 billion in the summer of 2006, the former GE star executive is engaged in a full-on crusade to raise Nielsen's game. On Feb. 8, just a few weeks after the retreat, Nielsen was forced to send a letter apologizing to the clients of its marquee TV-ratings service—which influences some $70 billion in annual advertising—for chronic delays in providing data.

Plenty of Calhoun's peers—not to mention elite corpo-

PHOTOGKAPHS BY MICHAEL LEWIS

In One Day Nielsen Tracks...

more than
40,000
television programs rated by
80,000
local Nielsen "people meters" and nationally in some
14,000
U.S. homes. The results determine how roughly
$70 billion
in local and national TV advertising is spent. On the radio it tallies the play lists and advertising of
2,800
stations in 22 countries, which adds up to a total of
560,000
songs and
300,000
ad spots.

rate headhunters—are still surprised that this is the challenge he chose. Just two years ago *Fortune* called him "the most lusted-after managerial star who isn't already a CEO." At the time he was GE's vice chairman, running its sprawling $47-billion-a-year infrastructure business—ten times bigger, by revenue, than Nielsen. The fact that he could make $100 million (if Nielsen goes public or is sold in a few years) was cited by many parties, including *Fortune,* as the main draw. Even so, it seemed an odd choice to many. His mentor and longtime boss, Jack Welch, observed that Calhoun's GE contemporaries were taking CEO slots at far larger corporate icons, like 3M and Boeing. "I think if he had waited a little longer, he might have gotten a really big one," says Welch now. "But this was the right offer at the right time in the right environment."

Calhoun had his reasons for coming to Nielsen. (And, he swears, it wasn't just the lure of private equity lucre.) One was the unique perch the company occupies at the intersection of commerce and media, giving it influence that arguably goes far beyond its size. Then there's the unique nature of the task at hand. Rather than merely wring more efficiency out of a plodding quasi-monopoly, he wants to recast Nielsen as a customer-focused, tech-savvy enterprise that is as vital in the world of Google, Slingbox, and the iPhone as it was when TV viewing went from black-and-white to color.

Considering that he's an accountant by training who earned his chops at GE as an internal auditor, perhaps it shouldn't be surprising that Calhoun is now on a quixotic-sounding mission to measure the world. He has even adopted one of Welch's well-worn management slogans as both an internal mantra and a pitch to clients: "If it can't be measured," he said to me repeatedly during a series of Interviews, "it can't be managed/'

But getting people like the real A.G. Lafley to be satisfied with Nielsen is just part of Calhoun's assignment. He has the added urgency of needing to meet aggressive growth goals for the company's **owners—despite** $8 billion in debt on the books in a softening economy. And Nielsen has never faced more intense competition from old rivals and upstarts, which aim to exploit the instant feedback of the Digital Age in ways that can make Nielsen's original business of methodically gathering and recording data look downright archaic. "Nielsen is in a fight for its relevant life," says Tracy Scheppach, senior vice president at advertising firm Starcorn Worldwide.

SHARING THE LOAD CHIEF OF RESEARCH SUSAN WHITING HASTAKENONADDEDDUTIES.

ARTHUR C. NIELSEN SR. founded his namesake company in 1923 to perform surveys of the production of industrial equipment, Over time, however, he saw a larger opportunity in helping companies take the mystery out of their marketing. As the retail pioneer John Wanamaker once famously mused: "I know I waste half my money on advertising. I just don't know which half." Nielsen set out to solve that riddle by counting, measuring, and analyzing what people buy, eat, read, watch, listen to, and otherwise consume. In the process he fathered one of the most powerful business concepts of the 20th century: market share. Today, as It happens, Nielsen is headquartered in the refurbished Wanamaker's department store building in Manhattan.

Having popularized the idea of market share, Nielsen Sr. and son Arthur Nielsen Jr. made sure over the years to seize as much of it as possible. Nowhere were they more successful than with the television ratings system, launched in 1950, that made Nielsen a household name. Almost six decades later the service

still functions as a near-monopoly. Nielsen has honed its methods over the years, but some ad buyers and media executives are still critical that Nielsen derives its national TV ratings from a mere 14,000 "Nielsen families" who have meters hooked up to their TVs. Nielsen also rates local and cable viewership, among other things. Altogether, Nielsen Media Research makes up roughly one-third of the company's $4.5 **billion in** sales.

Another third of the company's revenues is generated by A.C. Nielsen, which commands more than 60% of the retail research market globally. Overall, the company gathers data by employing two separate armies. One comprises some 31,000 people worldwide who do nothing but organize and retrieve retail sales figures from stores. The other includes more than 700,000 people who participate in ongoing research panels in which, for modest sums, they anonymously lay their consumption patterns bare to Nielsen's statisticians.

How do companies use Nielsen's data? Say Nestle wants to introduce a new flavor of Haagen-Dazs ice cream. For starters, Nielsen can tell them that Pittsburgh is the ice cream buying capital of America. (Who knew?) One Nielsen business, BASES, can forecast how the flavor will do before a single pint is produced. Another can determine the best addresses to locate a new Haagen-Dazs shop. The main A.C. Nielsen figures can parse by. market how the flavor is doing against rivals. And the media side of Nielsen can help figure out how and where ads are sold, and even monitor passing mentions of it on TV shows and blogs.

The largest chunk of the company's revenues outside of media and retail research comes from a business information and trade show unit that includes The Hollywood Reporter, Billboard, and *Adweek* magazines and that today represents about 10% of sales.

Nielsen's current mix of businesses was mostly cobbled together by a Dutch company called VNU. The Nielsen family had sold the outfit after the death of Arthur Sr. in 1980. VNU later acquired the Nielsen portfolio and combined it with complementary ventures, but did a lousy job integrating the operation. With the buyout market booming in 2006, VNU became a target. And after some due diligence, the private equity firms banded together and swooped in. "We felt this was a company that was not broken, that in fact had a very strong franchise and talented people with significant upside potential," says Alex Navab Jr., a KKR partner who oversees media investments. "However, the company was undermanaged." The new owners needed an executive who could create a cohesive vision.

THE SON OF A CEMENT salesman, Calhoun grew up in Allentown, Pa., and joined GE's management training program right after finishing his accounting degree at Virginia Tech. Known at GE for a willingness to tackle big jobs, Calhoun takes pride that despite wearing an insulin pump to treat diabetes, he has an athletic life. ("I used to play 54 holes a day with Welch, and I still can," he says.)

Calhoun says there was no friction with GE CEO Jeff Immelt. What made him jump when he did, he says, was the realization that he would be on the road 90% of the time in 2006, much of that abroad. He decided he wanted to spend more time with his wife, Barbara, and the two of their four kids who hadn't yet left for college. At Nielsen he works mostly out of a bland satellite office in Wilton, Conn., a short drive from his house. "I miss the breadth of GE today," says Calhoun. "I can't tell you I don't miss that. So whatever I bad to do had to be really different."

Being a poster boy for private equity paydays rankles Calhoun: **"Money has never been** what's motivated me."

His biggest concern about taking the Nielsen gig was whether six private-equity egos could coexist. But so far, he says, it's been smooth sailing. It can't hurt that Nielsen looks to be on track to achieve ownership's first-year goal of raising operating income by at least 20%. Calhoun has cut costs (by, for instance, outsourcing tech operations) and acquired new, higher-growth businesses. On a pro forma basis, revenues for the nine months ended Sept. 30 were $3.4 billion, up 11% from 2006, while operating income increased 19% to $196 million. If Calhoun can keep it up, he'll double the profits of the company within five years of its changing hands. And thanks to the magic of leverage, the $4 billion in equity that the company's owners invested could double or triple in value.

THOUGH HE DIDN'T comment publicly at the time, being a poster child for private equity paydays rankled. "It bothered me a lot—it's dead wrong," he says now. "Money has never been what's motivated me in my lifetime." He adds that he invested a substantial amount of his net

In One Day Nielsen Records ...

51.5 million transactions at **36,000** retail stores around the world, as well as the sales of **2.1 million** books at 12,000 locations. The company logs recorded-music purchases from **31,000** locations in the U.S. and Canada and DVD sales from **150,000** locations. And in their homes, **125,000** Nielsen panelists are scanning **279,423** products they buy.

In One Day Nielsen Follows ...

the web-surfing habits of **410,000** people around the world. The company also surveys the mobile-phone bills of **20,000** people, involving **40,000** telephone lines, in order to determine cell usage, and tracks the sales of **429,000** ringtones. Plus, its BuzzMetrics unit scours **3 million** blog and message posts each day for mentions of products or personalities.

worth in Nielsen while taking a salary cut: "I went from a sure thing at GE to being $20 million in the hole right now."

During his first two months on the job Calhoun met with the CEOs of clients and got personally involved in big contracts—including P&G, Coca-Cola, NBC, and Kraft—that were up for renewal. Since then he has opened up his thick GE management playbook—doing everything from importing Six Sigma productivity gurus to hiring several former colleagues to key corporate posts. He renamed the company after its core brand. And he's given longtime Nielsen executives (the "domain experts," in GE-speak), such as research chief Susan Whiting, expanded duties while bringing in a couple of media industry mavericks, like former Grey Advertising exec Jon Mandel, to help shake up the business.

Nielsen has announced a raft of deals and alliances, including one with potential rival Google. And it has been working on entirely new ways to measure things that it hopes will ensure its hegemony in decades to come, including one new service to monitor the impact of in-store advertising (e.g., video-screens) and another that takes the coding Nielsen embeds in all TV shows as part of its ratings-gathering apparatus and uses it as a watermark to protect the shows from unauthorized play online.

MEASURE MEN
ARTHUR C. NIELSEN SR. (LEFT) AND JR IN 1954

So far clients, competitors, and colleagues alike say that Calhoun's management has injected energy and competitive fire into Nielsen. "I was much happier competing with the previous owners," says Romesh Wadhwani, the chairman of Information Resources, Nielsen's largest single competitor. Jim Willke, a longtime Nielsen employee, summed up Calhoun's impact on the company this way: "It's like you're playing in AA baseball, and suddenly Roger Clemens has come to pitch for you."

IT'S STILL EARLY innings, of course. (And Roger Clemens hasn't had an easy time lately either.) There are plenty of challenges to keep Calhoun on his toes. In television Nielsen might be facing its first real threat, well, ever. Everyone from TiVo to DirecTV to Comcast is now working on a way to use set-top boxes to provide real-time TV viewing data that rival Nielsen's—at a fraction of the cost.

One of Nielsen's biggest pushes is what it calls "anytime, anywhere media measurement." Calhoun believes Nielsen NetRatings can be the currency of Internet advertising, just as Nielsen ratings are for TV. For now, though, figuring out who really visits what on the web is a chaotic exercise, with several competitors often producing wildly different numbers.

Whether the criticism is valid or not, some wonder if some of Nielsen's current quality issues are linked to its new ownership and financial situation. Although Nielsen is within its covenants, it has yet to pay down any of its debt. Instead, the private equity partners have allowed Calhoun to use operational savings he's made to fund acquisitions and new initiatives—but that also means that the company is paying close to $700 million in interest each year, which raises questions about how much Calhoun can continue to invest. One rumored option, which he denies, is to sell the business information and trade show division and focus on research. In any case, David Poltrack, chief research officer at CBS, says he is wary of some of the restructuring Calhoun has done. "We understand the business reality of that," says Poltrack. "But at this point in time we are concerned to make sure that they are not cutting to the bone."

The reassuring, take-charge message from Calhoun is that he has faced challenges like this before, in everything from plastics to locomotives to jet engines. If he focuses on executing—and of course on measuring—everything else will work out.

But he needs to keep his troops on track too. As the Florida retreat wound to a close, Calhoun praised and thanked his people but added a note of caution. He reminded them that Arthur Nielsen and his son built their business on integrity—a "Nielsen code" of impartiality, thoroughness, and accuracy. And in their role as caretakers of that legacy, nothing less than the future of honest commerce is at stake. "We're temporary, all of us," he said. "This is bigger than us, and bigger than me. Nielsen is a powerful name. It matters in the world." In other words, he might have added, Nielsen counts.

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