TULLY & HOLLAND

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The Demand Index

Direct Marketers | Demand & Circulation

Year End 2011 Analysis
Cumulative Circulation versus Cumulative Demand

Tully & Holland has been collecting and reporting circulation and demand data from 23 direct marketers since January 2011. Each week these companies with sales ranging from $5 million to $400 million send T&H weekly demand and circulation figures compared to the prior year. Each week the group's combined results are reported to the participating companies. This broad measure provides those companies a Demand Index by which they can measure their individual performance. The following analysis reflects year end demand and circulation performance for 2011.

2011 came to a close with a strong fourth quarter performance. In the fourth quarter, cumulative year to date demand increased almost a half a percent to 3.8%. This demand increase occurred despite circulation ending the year with a quarterly decline of 140 basis points to finish the year at positive 2.4%. Thirteen of the 23 companies saw positive growth in demand for the year. In similar fashion, 12 companies showed increases in circulation from the year before with 7 of those companies having increases of greater than 10%.

PERFORMANCE BY INDUSTRY:

In the subsequent chart, the 23 companies are sub-divided into five categories which best represents their industries. Since the sample size of the sub categories is small, the findings are not statistically significant; however, we believe the sample is directionally indicative of the strengths and weaknesses of the various segments.

	Percent of Companies With Increases in Demand	Average Change in Demand	Average Change in Circulation
Apparel	25%	-2.5%	-11.9%
Home & Accessories	50%	4.9%	-2.3%
Multi-Category	83%	5.7%	11.9%
Hobby	50%	6.4%	13.3%
B2B	67%	2.7%	-2.5%
TOTAL	57%	3.8%	2.4%

The **Apparel** category finished off the year in much the same way it had performed throughout the year. Demand was down 2.5% with 25 of the responding companies realizing a gain in demand for the year. Circulation was down by an even greater 11.9%.

The **Home & Accessories** category achieved one of the more impressive performances of the reporting groups. Demand was up 4.9% with half of the companies experiencing an increase in demand. Additionally, circulation was down 2.3%, suggesting that this category realized strong profits for the year.

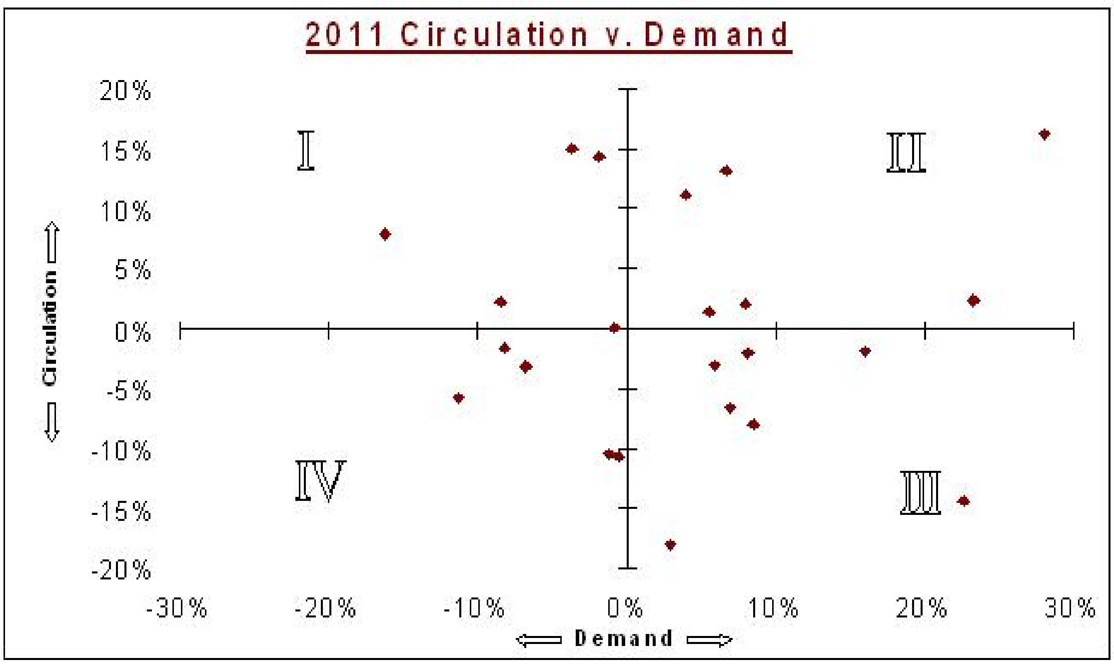
The **Multi-Category** group, which is comprised of six companies, reported an increase in demand of 5.7%. This growth reflected demand increases at 5 of the 6 companies for the year, with one company gaining more than 28%. Unfortunately, this healthy increase in demand came at the expense of a costly 11.9% increase in circulation. Only one company in this group showed a decrease in circulation, while half of those reporting had an increase of greater than 10%.

The **Hobby** category reported a 6.4% gain on a large 13.3% increase in circulation. Half of the companies reported an increase in demand, while only one had very strong results for the year. Three quarters of the companies had circulation gains over 10% while the remainder had a respectable gain of 8.4%. Profits for companies in this category will likely be under pressure.

Finally, the **Business-to-Business** category reported a modest 2.7% gain in demand. The 2.5% decrease in annual circulation appears to have had a negative impact on demand.

CIRCULATION VERSUS DEMAND

At the end of the first quarter the T&H analysis revealed that circulation and demand were very closely related. There was a strong, positive correlation between circulation and demand in the data. However, the year-end data displays quite a different picture. There seems to be less of a correlation between circulation and demand than originally believed, as highlighted in the chart below. Seven companies in the index were able to increase demand while decreasing circulation. These companies are highlighted in Quadrant III and likely had a strong profit year as demand increased while circulation dipped. Conversely, the four companies in Quadrant I increased circulation, but demand did not follow.



CONCLUSION

The first year of the Demand Index saw varied performances by its component companies. Three companies experienced demand gains of over 20% for the full year. Clearly, even with the malaise of the overall market there is room for outstanding individual performances. Since those three companies achieved their results with very different circulation plans, and those companies who didn't have strong results also had different circulation plans, we are reminded that it is merchandise and merchandising which is the dominant factor in determining demand over long periods of time. We look forward to reporting and analyzing 2012 demand, circulation and trends.

If you would like to participate in the Demand Index and receive weekly reporting, please contact me.

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