TULLY & HOLLAND
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The Demand Index

Direct Marketers | Demand & Circulation

1Q 2011 Analysis

Cumulative Circulation versus Cumulative Demand

Tully & Holland has been collecting and reporting on a group of direct marketers' circulation and demand since the first of this year. Each week, seventeen companies with sales ranging from $5 million to $400 million send to T&H weekly demand & circulation figures compared to the prior year. Each week we report back to those companies the group's combined results. This broad measure affords those companies an index by which they can measure their own performance.

Below, we share our first quarter findings. If you would like to participate and receive the weekly index, please contact me at srose@tullyandholland.com or at (781) 239-2900 x17.

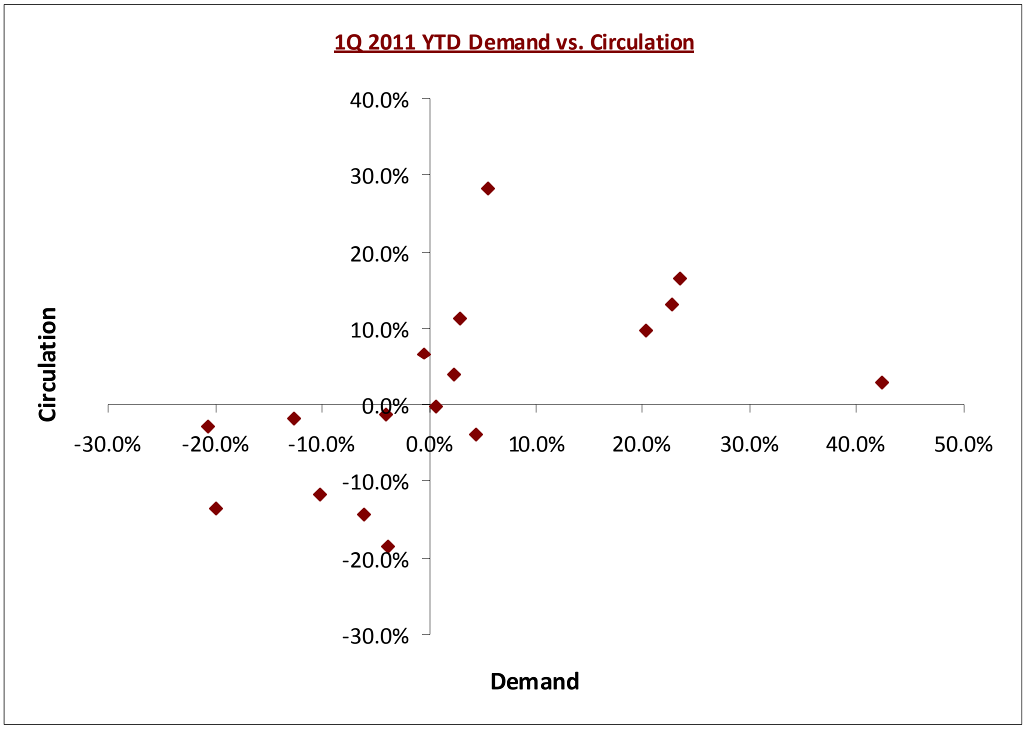
For the quarter, demand is up only 1.4% for the group while circulation is up 5.3%. Nine companies of the seventeen are up and eight are down. Of the nine companies with increases, 4 have gains greater than 10% over last year. Of the seven down companies, 4 have losses greater than 10%, a very wide distribution.

Ten companies have increased circulation from last year – six of which have increased circulation by greater than 20%. Some companies were extremely bullish. Conversely, 4 companies lowered circulation by more than 10%.

Catalog industry results are more than just circulation models. But internet marketing, category performance, economic climate, and merchandising combined only have as much influence on a company's results as do changes in circulation. Despite those caveats, we can illustrate that changes in yearly circulation do account for about 45% of a company's change YOY demand.

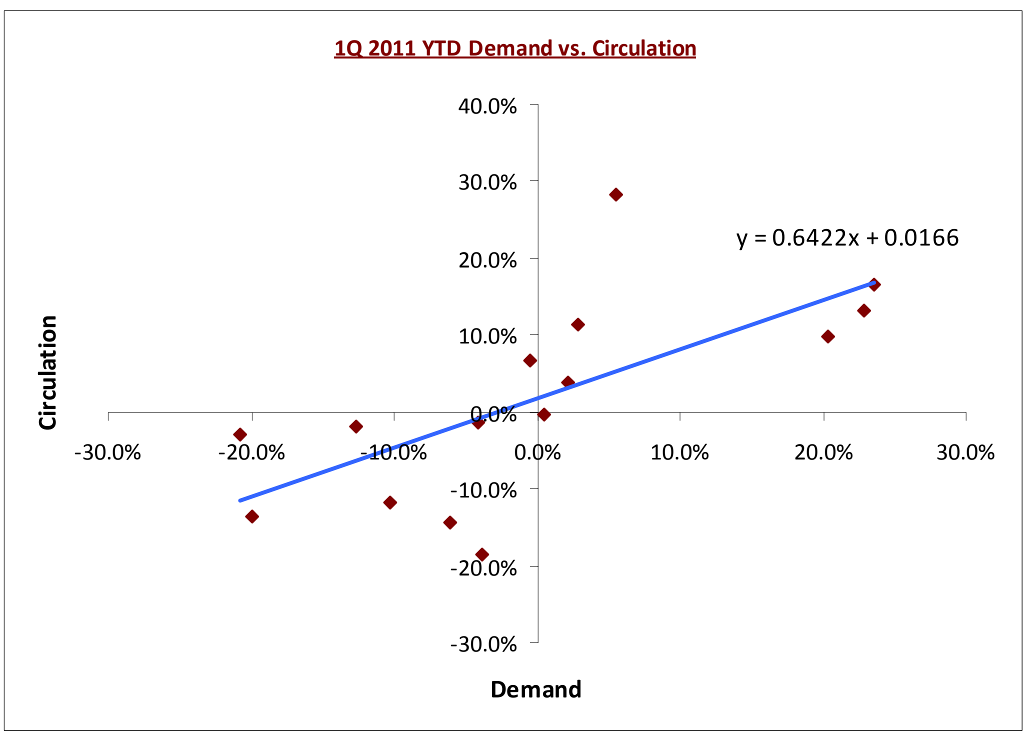
The correlation between demand and circulation – as one would expect – is strong. If we look at a 2 week lag on cumulative circulation, then we can explain the change in demand. Without any lag, the cause and effect correlation weakens as does the statistical significance. With a three week lag the correlation drops significantly.

First, when looking at the individual companies there is a very strong correlation between circulation and demand. Looking at the quadrants in the graph below, only 1 company which decreased circulation has a gain in demand for the year and only 1 company that increased circulation has a decline in demand.



It is very evident that it is difficult to increase demand while decreasing circulation. Circulation and demand travel together.

If we eliminate 2 outliers which have different operating characteristics (as we do in the chart below) the correlation becomes clear. Taking a close look yields a strong correlation.



$$\begin{array}{c} \text{Changes in} \\ \text{YTD} \\ \text{Demand} \end{array} = 1.7\% + 64.2\% * \begin{array}{c} \text{Changes in} \\ \text{YTD Circ. with} \\ \text{2 week lag} \end{array}$$

and the equation explains 46% of the variation of demand!

In other words every 1% change in circulation changes demand by 0.64% and explains 46% of demand variation. It is not surprising that the slope of the curve is less than 100%, because additional circulation is generally mailed to segments that respond less than the average…i.e. prospects and older customer cells.

Remember circulation plans matter most but other factors – merchandise, creative, economy, etc. – have sway.

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