TULLY & HOLLAND
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The Demand Index

Direct Marketers | Demand & Circulation

2013 First Quarter Analysis

Performance By Industry
Demand vs. Chain Store Sales

Tully & Holland has been collecting and reporting circulation and demand data from 20 direct marketers since January 2011. Each week these companies, with sales ranging from $5 million to $400 million, confidentially send T&H weekly demand and circulation figures compared to the prior year. Each week the group's aggregated results are reported to the participating companies. This broad measure provides those companies a Demand Index by which they can measure their individual performance. Tully & Holland also records monthly sales data from 13 retail chains which it shares with select clients.

The following analysis reflects demand and circulation performance for reporting direct marketers during Q1 2013.

While Q1 2013 demand slowed as the quarter progressed, overall results continued the string of gains seen during 2012. Total demand rose 1.8% for Q1 2013 on top of the Q1 2012 impressive gain of 3.9%. January's strong results, +7.3% versus year-ago, generated a positive outcome for the quarter despite March's -3.0% decline versus year ago levels. Preliminary results indicate the weak March performance has continued into April.

Q1 2013 highlights by industry sector include unexpected Home & Accessories demand decline despite increased circulation, significant decline for the Apparel industry sector and an impressive increase in demand for the B-to-B category.

Details by company reflect 11 reporting direct marketers had demand gains for the quarter, 7 of which were double digit increases. Of the 9 companies experiencing declining demand, 3 had double digit decreases versus a year ago. Twelve companies increased circulation, 9 by more than 10%. Eight companies decreased circulation versus year-ago, 5 by more than 10%. Cumulative quarter-end demand was up +1.8% on an increase in circulation of 5.8%, pointing to declining profitability for the quarter.

Performance By Industry

In the subsequent chart, the 20 companies are sub-divided into five categories which best represent their respective 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.

	Average YTD Change				
	Demand			Circulation	
	2013	2012		2013	2012
Apparel	-4.3%	4.9%		11.3%	23.3%
Home & Accessories	-8.3%	8.2%		-11.7%	-5.5%
Multi-Category	3.4%	2.1%		8.6%	-11.0%
Hobby	4.1%	-4.1%		11.6%	10.4%
B2B	15.1%	5.5%		10.6%	-19.4%
Total	**1.8%**	**3.9%**		**5.8%**	**-1.9%**

Source: T&H Analysis

Disappointingly, the **Apparel** category's 2013 first quarter demand ended the quarter -4.3% reflecting a significant decline from last year's first quarter despite an increase in circulation. The circulation for the category increased an additional +11.3% following a large +23.3% increase in Q1 2012. Apparel companies, which have struggled in recent years, appear to have continued to push some demand onto the customer via increased circulation, without positive results this quarter.

Surprisingly, it appears recent strong performance in the **Home & Accessories** category has come to a screeching halt. Unlike prior years when strong demand results occurred despite conservative circulation plans, Q1 2013 demand was down by -8.3% with a drop of -11.7% in circulation. With a continuing strengthening housing market, this category's demand decline was unexpected. Going forward, it appears this sector may need to take a more aggressive circulation stance to reverse the current demand decline.

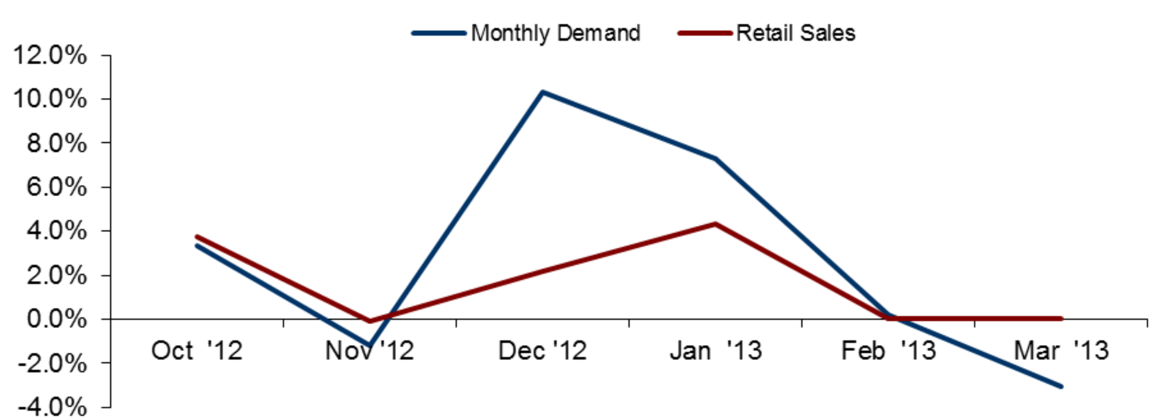
The **Multi-Category** group reported an increase in demand of +3.4% along with a +8.6% increase in circulation. While demand grew, it did not keep pace with circulation. If 2nd Quarter circulation slows, and demand growth stays consistent, then the slow and steady demand gains provide a basis for a healthy year.

Consistent with its past performance, the **Hobby** category demand increased +4.1%, in conjunction with a circulation increase of +11.6% at quarter-end. This category has repeatedly increased circulation faster than demand which ultimately leads to long term profit margin pressure.

Finally, the **Business-to-Business** category continued its upward demand trend boosting its year-to-date performance to an impressive +15.1% gain. While these results were accompanied by a 10.6% increase in circulation, the gain remains significant as it comes on top of a Q1 2012 positive demand of 5.5%. This was the strongest performing category this quarter and followed a solid 2012. Profits should be strong for this group.

Demand vs. Retail Sales for the 6 Months ended March 30, 2013

Tully & Holland also records monthly sales data from 13 retail chains. The chart below provides a comparison between direct marketer demand and retail sales going back to October of 2012.



Source: T&H Analysis

When comparing monthly variability between direct marketer demand and retail sales for the six months ending March 29th, 2013, the analysis yields similar performances for both sectors. While the results for the direct marketing sector are more volatile, changes in retail sales reflect a similar but less erratic pattern throughout the year.

As in the past, T&H believes that direct marketers' volatility is likely due to three factors: 1) the direct marketers ability to control/push circulation and thereby consumer demand versus brick and mortar retailers that rely heavily on foot traffic, 2) the direct marketers small size relative to the larger public retailers thereby magnifying monthly variation in performance, and 3) the direct marketers ability to benefit from increasing consumer acceptance of ecommerce.

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

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