

TULLY & HOLLAND

INCORPORATED

The Demand Index

Direct Marketers | Demand & Circulation

2Q 2011 Analysis

Average Order Value Analysis

We are well into third quarter and year to date demand is slightly positive ----- +1.6% ----- but the past several weeks have been tough. Hopefully that trend will reverse itself – though the grumblings of the public discourse and government statistics will lead one to believe the economy is weakening.

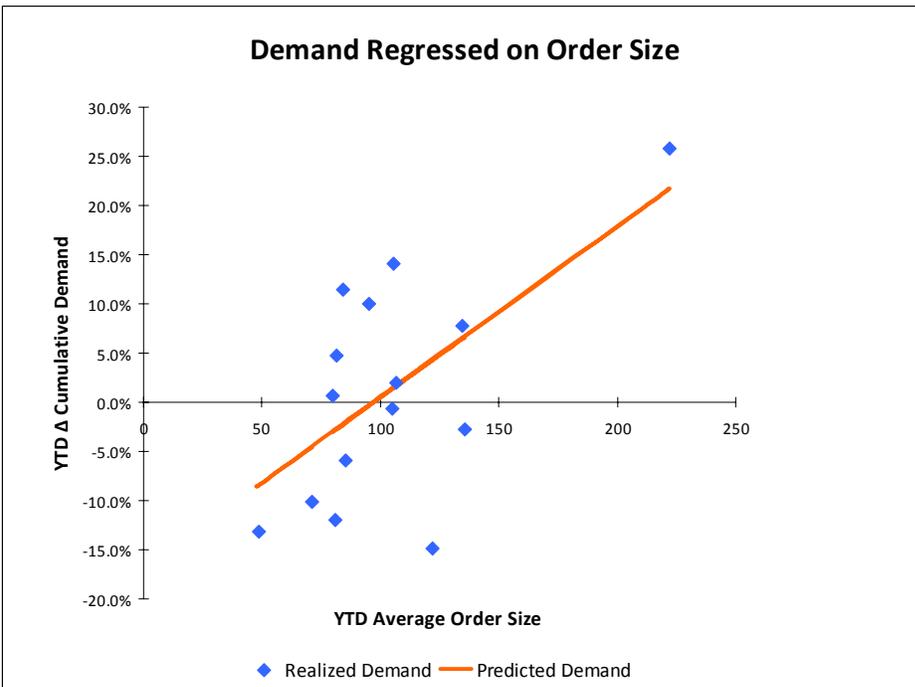
If you remember, at the end of first quarter we circulated an analysis which showed the change in demand was highly correlated to the change in circulation. A bit less than half of the change in demand was explained by the change in circulation. We are pleased to report that the correlation continued to hold through second quarter, though circulation correlation has weakened somewhat through the month of July.

In an attempt to find other variables which might explain the variance among firms, we asked each firm for the change in average order value from last year. After analyzing the results, we concluded that the change in AOV from last year had no statistically significant correlation; HOWEVER, the absolute level of AOV did matter.

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%.

Through the last week of July the change in demand from last year is correlated to the absolute dollar amount of AOV. The higher the AOV, the better year over year demand. The relationship is strong and statistically significant. By itself it explained a significant portion of the variation among reporting companies. It would appear that higher income consumers have either not been hurt as much during the downturn or have yet to adjust their spending. Remember, correlation does not imply causation...higher prices do not lead to better results, but the consumers of higher priced goods are spending more than consumers of lower priced goods.

Here is the graph:



The analysis based upon the T&H Demand Index data is confirmed when we look at the broader world and see the change in demand also appears correlated to AOV. For example, Macy's same store sales are up 6.1% YTD and Saks is up 12.3% while JC Penney is up only 2.5% and TJX is up only 3%. The retailers which target higher income consumers are doing better than their moderate counterparts.

We are still looking for new members to make our index even more robust. Please contact Stuart Rose if you are interested in participating in the weekly reporting.

Stuart Rose | Managing Director
T 781-239-2900 x17 | M 617-653-6393
srose@tullyandholland.com

Tully & Holland, Inc.
Investment Banking for Consumer Product Companies
Food & Beverage, Direct Marketers, Retailers, Manufacturers & Distributors
www.tullyandholland.com
(781) 239-2900