# TULLY & HOLLAND

INCORPORATED

## The Demand Index

Direct Marketers | Demand & Circulation

### 2012 Year End Analysis

**Performance By Industry**

**YTD 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. The following analysis reflects 2012 demand and circulation performance.

Cumulative year-end demand was up +3.9% on a decline in circulation of -0.4%, indicating a profitable year for the direct marketing industry sector. The gain in demand follows a very similar increase in 2011. Of the 20 companies surveyed in 2012, 13 reported positive results for the year – with 8 companies experiencing double digit gains. Only 2 companies reported double digit losses.

Fourth quarter demand growth versus 2011 was "up and down" as a solid October +3.4% was followed by a weak November (-1.2%) and then an exceptional December +10.2%.

**Performance By Industry**

In the subsequent chart, the 20 companies are sub-divided into five categories which best represents 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 | |
| | 2012 | 2011 | | 2012 | 2011 |
| Apparel | 6.6% | -2.5% | | 16.0% | -11.9% |
| Home & Accessories | 4.1% | 4.9% | | -4.2% | -2.3% |
| Multi-Category | -0.7% | 5.7% | | -11.2% | 11.9% |
| Hobby | 1.3% | 6.4% | | 2.6% | 13.3% |
| B2B | 9.1% | 2.7% | | 2.0% | -2.5% |
| **Total** | **3.9%** | **3.8%** | | **-0.4%** | **2.4%** |

The **Apparel** category 2012 demand ended up +6.6% rebounding from last year's decline. The circulation for the category increased +16.0%, in an effort to reverse last year's modest decline in demand. Apparel, which has struggled in recent years, appears to have pushed some demand onto its customers, as all companies in this segment increased circulation more than demand.

In the **Home & Accessories** category, demand was up by +4.1% despite a drop in circulation. This is similar to 2011 results and points to the recovering housing markets positive affect on this category.

The **Multi-Category** group reported an annual decrease in demand of -0.7% and a -11.2% decrease in circulation. For this group, year-end performance was consistent with the results through the first half of the year. The large decrease in circulation versus 2011 combined with the relatively flat demand should result in healthier profits than last year when circulation increased substantially more than demand.

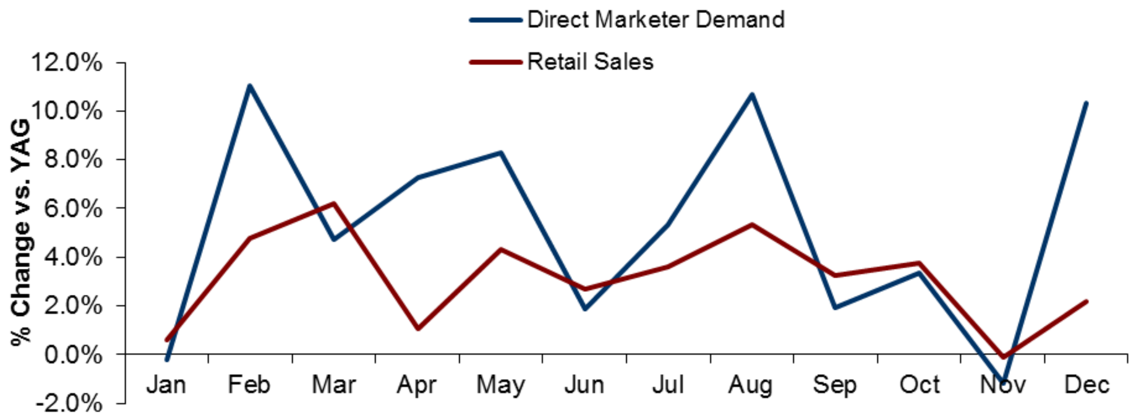
The **Hobby** category saw demand increase +1.3%, and circulation increase +2.6% at year-end – a fairly stable year after a 2011 which had a costly +13.3% increase in circulation, but only a +6.4% increase in demand

Finally, the **Business-to-Business** category continued its upward demand trend boosting its year-to-date performance to a +9.1% gain. This positive full year demand performance is accompanied by only a 2.0% increase in circulation. This was the strongest category this year and followed a solid 2011. Profits should be strong for this group especially as businesses continue to look for ways to improve profitability by utilizing direct marketers to control costs.

**Year-end Demand vs. Chain Store Sales**

In addition to tracking demand and circulation for direct marketers, Tully & Holland monitors the performance of brick and mortar retail stores through a set of 25 public companies. The analysis focuses on four major sectors: Discount, Off-Price, Department, and Specialty Apparel.

**2012 Demand vs. Retail Sales**




When comparing monthly variability between direct marketer demand and retail sales for 2012, the analysis yields similar performances for both sectors. While the results for the direct marketing sector are highly volatile, changes in retail sales reflect a similar but less erratic pattern throughout the year. The direct marketers' volatility is likely due to three factors: 1) their ability to control/push circulation and thereby consumer demand versus brick and mortar retailers that rely heavily on foot traffic, 2) their small size relative to the larger public retailers thereby magnifying monthly variation in performance, and 3) their 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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