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21st-century Otto

The meeting room in the London offices of Freemans is rich with wood: wood panelled walls, built-in wooden benches, a wooden chest with elaborate inlays. Paintings of the catalogue's founders line the walls, broken up by framed pages from catalogues of long ago, when men's ties could be had for 1/11d. Amid these signifiers of the brand's history, however, are several more-modern elements: white erase boards, flip pads, a pull-down screen for viewing PowerPoint presentations.

This mix of heritage and modernity sums up Freemans' parent company, Otto UK, and the challenges its chief executive, Mike Hancox, faces.

Itself a unit of Germany's €15,251 million Otto Group conglomerate, Otto UK was born of the marriage in 2000 of two agency catalogues, Freemans and Grattan. The agency brands, which also include the Look Again website, account for about 80 percent of Otto UK's roughly €853 million in turnover.

But the demise of the agency "big book" has been predicted for nearly a decade now. Which is a key reason that Otto UK is looking to niche brands, including some that are online only, for its growth.

Old school, not old hat

"What we have to ask ourselves is how long is the agency model sustainable," says Hancox, sitting at the head of a long, cloth-covered table in the meeting room. "I suspect it will last longer than anyone thinks it will. Five years ago people said agency books would be gone within five years. But the agency model is still a useful model for many, many people," he adds, referring to the 20-25 percent of the population unable or unwilling to get credit other than from catalogues.

Hancox doesn't appear a likely advocate of agency catalogues. He's dressed in a sharp blue pinstripe suit, his shirt sporting silver golf-club cufflinks ("I wouldn't say golf is a passion. I don't play it enough to be really good at it"), and his salt-and-pepper hair is fashionably shaved. Nor do some of his major initiatives since becoming head of Otto UK in December 2005 suggest an affinity with the traditional agency model. He launched two speciality catalogues, Montage and Oli, and an electricals website, Duck.co.uk. He also upgraded the company's existing websites, even making the Grattan site able to take credit-card orders in addition to the old-school account orders.

But Hancox isn't looking to get rid of agency customers. Although he would like "direct" consumer sales to account for 50 percent of Otto UK's revenue



Otto UK chief executive Mike Hancox

Otto UK is looking to niche brands, including some that are online only, for its growth

within a few years, that means agency buyers would still make up the other half.

Or rather, customers who buy from agency books would. The number of traditional agents—those who establish accounts with Freemans or Grattan to sell to, and collect the instalment payments from, their network of friends, neighbours and family—is declining. And thanks in no small part to the internet, a growing number of Freemans and Grattan customers are shopping for themselves. As a result, "you end up with a confused customer file," Hancox says.

Which wouldn't be so bad if the margins of the agency books weren't so thin. But as Hancox explains, the original agency business model was that buyers received perks such as free delivery and interest-free credit—except that of course these freebies weren't truly "free"; the costs were bundled into the product prices, so that agency books charged slightly more than high-street retailers.

"What our industry has been bad at is communicating these extras," Hancox says. So to compete with high-street retailers and direct-to-consumer cataloguers, the agency books lowered their prices, thereby eating into, if not eliminating, profits.

Indeed, from 1999 until last year, Otto UK had been in the red, with sales declining from year to year.

Enter Hancox.

Turn, turn, turn

Otto UK isn't Hancox's first experience in turning around a troubled cataloguer. He'd been finance director of GUS's home shopping division when it was acquired by the Barclay brothers in 2003 and renamed Shop Direct Group. Hancox was soon named chief executive/chief operating officer of Shop Direct Group; when it merged with Littlewoods in 2005, Hancox was named COO of the newly formed Littlewoods Shop Direct Group (LSDG).

From 2003 to 2005 turnover at LSDG rose from £1,845 million to £2,754 million; profit increased from £60 million to £83 million. A tentpole of Littlewoods' turnaround strategy has been consolidating brands. For instance, it rolled up its Abound brand into Additions Direct, and the websites of its general merchandise brands—Choice, Great Universal, Kays and Littlewoods—are strikingly similar. At Otto UK, "I've taken a slightly different approach," Hancox says. "My belief is there should be niche, standalone brands".

And so, in summer 2006, he launched Duck.co.uk,

21st-century Otto

In less than two years, chief executive Mike Hancox has made great strides in reducing Otto UK's reliance on its agency catalogues—but he's far from finished

By Sherry Chiger

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All in the family

Formed in 2000 by German parent company Otto Group, Otto UK includes

- Freemans (www.freemans.com), an agency catalogue founded in 1905 and acquired by Otto in 1999
- Grattan (www.grattan.co.uk), another agency catalogue, founded in 1912 and acquired by Otto in 1991
- Look Again (www.lookagain.co.uk), a smaller agency brand targeting consumers in their 30s and 40s
- Kaleidoscope (www.kaleidoscope.co.uk), a print and online catalogue of women's fashion, home decor and electricals targeting mature customers
- Duck.co.uk, an online-only marketer of consumer electronics
- Montage (www.montage.co.uk), a speciality print and online catalogue of apparel for women 25-45 years old
- Oli (www.oli.co.uk), a web and print marketer of fashion-forward apparel and home goods, targeting females 25-35 years old
- YourSchoolUniform.com, an online-only seller of school uniforms of which Otto UK holds a majority share
- 25 multibrand discount stores.

Other Otto brands that aren't part of Otto UK but that nonetheless have a presence in the UK are Bonprix, a cataloguer/retailer of value-price apparel and home goods, and Witt International, a catalogue selling moderate-price women's fashion.

Otto Group consists of 123 companies in 19 countries. Multichannel retail accounts for more than 60 percent of its revenue; the company also operates financial services, logistics services (including Parcelnet in the UK) and wholesale companies. International retail brands include German hunting-equipment merchant Frankonia and sporting-goods cataloguer/retailer Sportscheck. It also owns majority shares of multibrand cataloguer 3 Suisses, US furnishings cataloguer/retailer Crate & Barrel and fashion retailer Zara.

an online-only purveyor of electricals. Another niche brand, Montage, followed in spring 2007. Unlike Otto UK's core big books, Montage doesn't sell home furnishings, electricals, toys and everything else under the sun. It sells only women's fashion, targeting buyers 25-45 years old.

Hancox's highest-profile launch, however, has to be Oli, which debuted in June with a cutting-edge website and a print catalogue—or rather, a Style Guide, more than 2 million copies of which were mailed to customers and requesters as well as distributed via stores such as Boots and Borders. Television and print advertising, a glittery launch party and sponsorship of Channel 4's series *Cook Yourself Thin* heralded Oli's debut. All told, the company spent £25 million introducing the brand.

Although it sells its share of apparel for men and children, along with home goods and consumer electronics (or "technology" in Oli parlance), Oli specialises in fashion for women ages 25-35. "Certainly with Oli we're looking for people who are not traditional home shoppers—high-street shoppers, cash-rich, time-poor consumers," Hancox says.

To appeal to this audience, Oli has invested heavily in its website. The Look Book feature, for example, enables shoppers to drag and drop apparel items to create virtual outfits or decorate virtual rooms. Other features include videos of selected ensembles and the ability for visitors to email their choices to friends, who can send back their own suggestions and picks, as a way to replicate the experience of cruising the high street with a mate. To further replicate the high-street experience, and to compete with the fast-fashion retailers, Oli adds 20 new items to its site each week.

At least 50 percent of all Oli sales come via the web. Ditto Montage sales. And in Ireland, where Freemans launched this year, the web accounts for an unexpected two-thirds of business. ("We're not sure why," Hancox admits, especially given that broadband penetration in Ireland is lower than in the UK.) So far this year the web has accounted for 28 percent of Otto UK's sales, up from roughly a quarter last year. When Hancox first arrived at Otto UK, "offline and online were treated as two separate entities," he says. "I'd see a catalogue promotion and then an email promotion conflicting with it".

Hancox has since reorganised the business units to eliminate such conflicts. He is also working to solidify a positive corporate culture for the company. Whereas Littlewoods had "very much a venture capital feel during the turnaround," he says, "what I've got here at Otto is a lot of cultures that I've got to mould into the Otto UK culture".

He's basing that culture on a need to succeed. Because Otto UK had been flailing for nearly a decade, many of the staff "got into the mindset that a loss was



Model and Oli designer Jodie Kidd at the brand's high-profile launch party

okay," Hancox says. He believes that by showing the benefits of success—most recently with Oli, whose results have already exceeded expectations—he has managed to eradicate that mindset. And in fact the company posted a profit last year, despite turnover increasing less than 1 percent.

Star wattage

Just as he doesn't see the agency model disappearing anytime soon, Hancox doesn't expect paper catalogues to become obsolete. "Clearly it's the paper that's directing the web activity," he says. "Many customers still see turning the page as a ceremony".

As proof that Hancox isn't betting Otto UK's entire future on ecommerce, he has invested heavily in marketing one of the group's oldest brands, Grattan. Not only is the agency brand a senior in terms of its longevity—it was founded in 1912, seven years after Freemans debuted—but its audience is the oldest-skewing of the company's titles.

"What I found when I arrived is that they'd been cutting costs not just in logistics and fulfilment and administration but also in marketing," Hancox says. "They saw marketing as a cost, not as an investment". As he set out to change that philosophy, "I thought celebrity endorsement was a cost-effective way of raising the profile".

The first celebrity to sign on with Grattan was TV makeover maven Nicky Hambleton-Jones. Just about everyone in Grattan's primary demographic—baby boomers—wants to be 10 years younger, Hancox says, so who better than the host of *How to Look 10 Years Younger* as a pitchwoman? Her affiliation gave the brand a boost, Hancox says, as did that of actress Patsy Kensit. The latest celebrity endorser: Debra Stephenson.

The celebrity gilding helps to differentiate Grattan

from stablemate Freemans, though Hancox insists that in the minds of each brand's best customers, the two titles are viewed as quite distinct. Freemans has long been considered more fashion-forward than Grattan, which is still seen as more midmarket—even though about 90 percent of the merchandise the two brands carry is the same.

But the Freemans big book is paginated to flow from younger to older—opening with fashion for young women—the opposite to Grattan. And the best-sellers

of each brand sum up the differences in perception. In one week in late September, laptops were among both Freemans' and Grattan's top-10 sellers. But Freemans' best-selling laptop was a pink, modish model, whereas Grattan's was a basic, entry-level version.

Keeping at it

Under Hancox's reign there has been an emphasis on launching brands. But earlier this year Otto UK acquired the majority share of YourSchoolUniform.com, an online-only merchant of, yes, school uniforms. The site's cofounders include Quentin Griffiths and John Morgan, cofounders of fashion phenom ASOS.com.

And Otto UK has partnered with another apparel marketer, Joe Browns, which is a supplier to several Otto titles as well as a direct seller in its own right. On web pages offering Joe Browns merchandise, Otto UK included banner ads directing shoppers to the Joe Browns website for additional products. Joe Browns received a major increase in traffic, according to Hancox, while Otto UK received a percentage of the resulting sales, similar to an affiliate program agreement. Based on the success of this deal, Otto UK is looking for other partnership opportunities.

Hancox has accomplished a lot in less than two years. But he's planning to accomplish much more. By this time next year he expects to have introduced, or at least be ready to discuss, another new brand, and he's not ruling out acquisitions of or investments in other companies. He wants to create a common platform for all the Otto UK websites and to tap the potential of mobile commerce and social media.

"We've turned the business around," Hancox says, "but now we have a different challenge: How do we continue growing in a declining market?" He's doing his damndest to find out. ■



Celebrity tie-in: Vicki Snow, head of PR for Otto UK, and Hancox flank Katie Price—aka Jordan—at Grattan's Celebrity Mum of the Year 2007 festivities.

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