

4. Our Business Model

Ocado is Focused Online

From the start we have built our business to take advantage of the ongoing channel shift in grocery retailing and our business model exploits the link between retail and digital technology. We are an entirely online-focused operator and strive for new and improved ways to deliver the world's most advanced end-to-end online shopping and delivery solutions.

We innovate to redefine the ways in which people complete their weekly shop. Our strengths lie within our compelling customer proposition, which harnesses our years of learning in a live retail environment to deliver leading customer service metrics, powered by our proprietary technology.

Our business comprises our retail and platform operations, both fundamentally enabled by our technology solutions and IP. By creating virtuous cycles within and between these interlinked businesses, enhanced by continued technology development, we improve our capabilities with the intention of driving long-term shareholder value. Our intention to commercialise our proprietary technology and platform gives us an opportunity to participate internationally as globally customers increasingly shop online.

Ocado's Virtuous Cycle



Our objective is to create a virtuous cycle between growth, innovation, efficiency and investment. This is enabled by our end-to-end solution, utilising proprietary technology and removing significant costs incurred by store-based retailers. The resultant cost benefits and profits enable us to reinvest into our business and drive growth. The virtuous cycle drives both our retail operating model and platform business.

Any improvements we make to our retail operations naturally translate to the Ocado Smart Platform. The investment we make into innovation improves our proposition, both for retail and corporate customers.

Our Retail Operating Model

Our online retail operating model is designed to deliver a best-in-class service in the most operationally efficient way to drive growth and long-term profitability. We have developed this by applying three core principles – automation, centralisation and the utilisation of our proprietary technology – to our customer focused approach. To achieve this our retail operating model functions via customer fulfilment centres (CFCs) developed with the constraints and attributes of grocery shopping in mind to reduce or eliminate many of the costs commonly incurred by store-based retailers. Our CFC operations encompass everything from the inbound delivery of goods from suppliers to the final placement of picked and packed customer orders onto vehicles for the final mile of delivery.

By developing our centralised approach, it allows us to maximise efficiency and drive down operating costs, enabling further investment in our customer proposition. We pride ourselves with what we believe to be industry leading service metrics on range, punctuality and accuracy and are constantly looking for ways to advance our proposition further, both for our existing and for new customers.

As an online focused retailer we have the flexibility to expand and grow faster in the market than our bricks and mortar peers. As we improve our proposition we attract a larger and more diverse range of customers, and with this increased scale we benefit from improved efficiencies.

To enhance our retail proposition further, we have extended our range into general merchandise categories. This comprises both products that can be purchased through our Ocado.com hypermarket as well as our specialist destination sites – Fetch, Sizzle and Fabled – which focus on sector-specific segments of the retail market.

Our Platform Operating Model

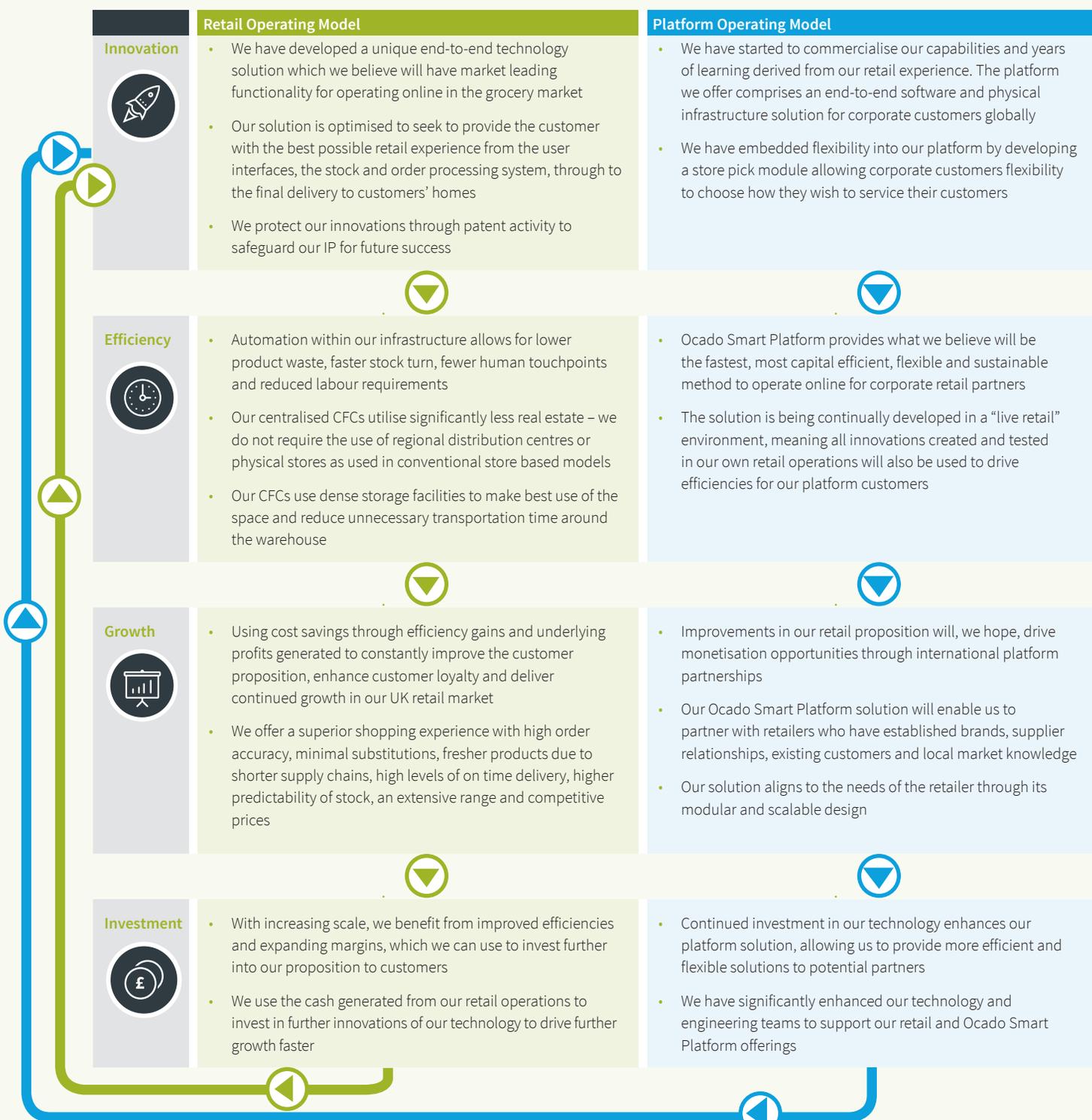
We have developed a complete end-to-end platform solution for online grocery retail. This has been created through years of operating our own online retail model and we have sought to optimise operational efficiency in every aspect of the online grocery cycle.

We recognise that success within the grocery market requires an understanding of operating within the local retail environment. This understanding includes aspects such as brand knowledge, consumer intelligence and local merchandising agreements. Ocado Smart Platform has been developed as an enabler for a retailer's online business – platform partners will choose how to run their online operations and the best methods to serve their customers, whilst we will provide the vertically integrated software and physical solutions using our online capabilities and experience.

In January 2014 Morrisons became our first customer to adopt our platform offering with the successful launch of Morrisons.com. Since then, Morrisons has extended its partnership with us to enable further growth of its online operations.



Read about Morrisons Update case study on page 21



The Best Platform

Ocado Smart Platform will provide partners with a complete, flexible and scalable solution to initiate or enhance their online presence, powered by our technology at what we believe will be significantly lower cost and a greater efficiency than alternative options.

We design and build the technology solutions that power our retail and platform businesses. This comprises everything from our award-winning websites and mobile apps to delivery route optimisation software, automation and robotics. By internally developing our software and infrastructure it gives us the ability to optimise and

integrate across our end-to-end solution and it enables us to collect and use valuable data, for the benefit of our customers.

Read our Ocado Smart Platform case study on page 12