



8. Our Strategic Objectives: Driving Growth

Grocery

In the online arena it is critical to ensure a positive customer experience as the cost and ease of switching between retailers is low. At Ocado, we have focused on improving every element of the consumer shop through the quality of our service and our user interfaces, the freshness of our products, the breadth and availability of range, and the competitiveness of our prices. This drives customer retention and helps us capture market share with the intention of providing long-term value for our shareholders. Ocado Smart Pass, a bundled benefits scheme, further drives customer loyalty and frequency of shop – it offers holders unlimited free deliveries for a fixed price, enhancing the benefits of the proposition. Over half of all sales is conducted with our Smart Pass customers.

Through our technological innovations we continuously improve our user interfaces to ensure an increasingly personalised and easy to use shopping experience. This includes the development of our mobile and tablet applications, which are increasingly significant, with over 55% of our orders being checked out via these channels.

Online grocery shopping has unique challenges not found in other online retail segments. This includes significant basket volumes, refined delivery slots and efficient order turnaround. We offer our customers full flexibility by offering one-hour delivery time slots seven days a week, with a wide availability of slots ranging from 5.30am – 11.30pm, and same day delivery service within certain catchment areas. We enable this service by operating our centralised model where we are able to drive efficiency and accuracy in our fulfilment process. This ensures high stock availability with minimal substitutions for our

customers. Our operating model, combined with our market leading technology and software, underpins our strong customer service metrics, with 94.9% on time deliveries and 99.0% order accuracy.

Efficiency gains enabled by our proprietary solutions can be reinvested into our competitive pricing policy; we operate a price matching initiative whereby each customer's shop is evaluated against an equivalent order with Tesco.com. We ensure this scheme is fully transparent by communicating directly with the customer any variances between our benchmarked shop, with any additional expense refunded to our customers in the form of vouchers.

Progress

In a tough grocery market we have demonstrated strong growth in our retail business of 13.6%, impacted by deflation on item prices and constrained by capacity utilisation in our mature CFCs. The value of our proposition to our customers is evidenced by the growth in our active customers over the year (13.9%) as well as our progress in sales of our Ocado own label products (10.9%). Growth in Ocado own label products has been constrained by contractual obligations under our agreement with Waitrose.

To attract and retain customers and encourage spend from our customer base we have continued to invest in our range, which is enabled by our centralised operating model. We now offer over 50,000 SKUs on our Ocado.com webshop – we believe the most extensive offering from a UK supermarket. We advertise and showcase our range through our dedicated 'shop-in-shop' facilities – we now have over 60 different "shop-in-shops", which allow customers to quickly search through themed product offerings and select

niche items from a variety of regions or suppliers, which wouldn't typically be found in traditional supermarkets. By categorising our interfaces in this way we provide niche suppliers – who may struggle for premium shelf space in conventional store formats – exposure and the ability to drive sales, which enhances our relationships and attracts suppliers to work with us.

Kantar Worldpanel data shows that 55% of online shoppers use the same shopping list from one purchase to the next; we understand these consumer habits and continuously update our interfaces with features such as favourites imports and tailored shopping promotions to facilitate and enhance the customer shopping experience and further accelerate growth.

Future Focus

In order to retain our loyal customers and capture market share we must not get complacent. While taking inspiration from technology and other industries we are committed to innovating and pushing the boundaries in online shopping and fulfilment and have invested in our dedicated technology and engineering teams to ensure this remains core to our offering (See Fabled case study).

General Merchandise

Our centralised operating model has enabled us to expand our offering into general merchandise categories. As well as general merchandise products sold on Ocado.com, we have dedicated destination sites which focus on specialist product ranges, such as our pet store, Fetch, our kitchen and dining store, Sizzle and our new premium beauty offering, Fabled. Hosting these dedicated destination sites drives the range of products made available to us by niche suppliers and brands, allowing us to vastly extend our range beyond conventional supermarkets.

KPIs

230,000

Average orders per week

£108.10

Average order size

580,000

Active customer base

50,000

SKU count

Risks

- Failure to maintain a competitive pricing position
- Decline in high service levels
- Failure to develop a retail proposition to appeal to broader customer base and sustain growth rates
- Failure to develop sufficient management and technology capability or bandwidth to deliver on all our strategic priorities
- Risk of negative implications caused by final Brexit terms such as increase in impact costs or difficulty in hiring employees

Customer orders from general merchandise categories can be collated with customer grocery orders so that all products are received at the same time, driving operational efficiency and minimising waste created by separate home deliveries. Deliveries can also be made standalone from a grocery order, but using the same routing software, or by courier enabling us to service areas outside our CFC reach.

Progress

We have seen strong growth in our general merchandise categories, up to over 40% year-on-year, and which now account for almost 7% of our Gross Sales (Retail)[®]. This has been driven by continued extension of the range of products offered. For example in October 2016 we introduced our new “Smart Home” section, where products such as smart home lighting, heating and security were incorporated into the Ocado.com hypermarket, allowing customers to extend their basket even further in a single shop.

Read about Ocado Smart Platform on pages 12 and 13

In August 2016, we launched our dedicated premium beauty shop, Fabled, in partnership with Marie Claire. Fabled has access to an extensive range of beauty products, from well-known names to new and niche branding, allowing customers to stock up on their beauty essentials overnight.

Future Focus

We plan to launch additional destination sites to offer our customers even more variety and

convenience of shopping. Our proprietary technology is built for range expansion, making the extension of assortment and product segments a natural pathway and a good driver of growth.

Platform Business

Continuous innovation and investment in our integrated software and physical infrastructure solutions drives a virtuous cycle of growth in both our retail and platform businesses. Our future platform customers will benefit from years of learning and development in a live retail environment to enable a sustainable launch or improvement in their online operations – with minimal capital investment and associated risk.

Progress

In August 2016, we announced an extension to our agreement with Morrisons, to host and deliver their online operations. The extension underlined the quality of our proposition and our strong relationship with Morrisons as a platform provider. The renewed contract operates in a format aligned to our Ocado Smart Platform structure and principles.

Read more in the Morrisons Update case study on page 21

We have added additional capabilities to our Ocado Smart Platform offering, namely the inclusion of a store pick module, which will allow corporate customers the flexibility to choose how to service their customers and provides an alternative method for delivery in more remote catchment areas. Morrisons will be our first platform partner to utilise this technology.

In November 2016, we commenced operations at our latest fulfilment centre in Andover, Hampshire (see case study). This is the first instance where our proprietary physical infrastructure solution is in use, and provides a live example of the physical equipment solution our platform customers would enjoy.

Read more in the Andover CFC and New Technologies case study on page 19

Future Focus

Our approach of continuously embedding our market leading capabilities (which we believe are market leading) into the Ocado Smart Platform is designed to drive long-term shareholder value and makes it an increasingly attractive proposition to current and future partners. We continue to be in discussions with multiple potential partners, and expect to sign multiple deals in the medium term.

Risks

- Risk of not signing multiple OSP deals in the medium term

A See Alternative Performance Measures on page 194

Case Study

F A B L E D
by marie claire

In August 2016, we announced the launch of our premium beauty shop, Fabled, in partnership with Marie Claire. Marie Claire’s brand authority combined with Ocado’s e-commerce expertise aims to bridge the gap between content and commerce. Fabled utilises Marie Claire’s editorial expertise to provide an enhanced user experience when shopping. This is evident in both our webshop interface as well as our flagship store, which is designed and set out in brand clusters to provide an interactive shopping experience with high quality advice across the beauty spectrum.

Fabled targets a more premium beauty focus than other online retailer offers and provides an authoritative niche range which sets us apart from pure bricks and mortar competitors. The focus of Fabled is on the key beauty categories of make-up, skincare, fragrance and haircare, supported by a wellbeing offer to capitalise on this growing trend.

Fabled utilises our superior fulfilment proposition allowing the site to offer an extensive range to customers, as well as industry leading delivery and customer service metrics, all supported by the Ocado customer service centre and by dedicated beauty specialists for independent product advice and aftersales support. There are clear synergies between the Marie Claire and Ocado customer profiles, which will help it drive the success of the partnership.

Expanding our extensive range into the premium beauty segment accelerates growth in our business as it allows us to utilise our best-in-class fulfilment solution to enter an attractive, higher margin segment of retail.

