

# Strategy Driving Growth



## Grocery retail

Ocado Retail is changing the way the world shops, demonstrating superior service, range, value and ease of use, all focused on offering our customers a world-class service. This breeds loyalty, and attracting and retaining more customers drives our growth and market share. This is why we analyse and constantly improve every element of the consumer shopping experience, whether through the easy-to-use interfaces, the freshness of our products, the breadth and availability of our range, or the competitiveness of our prices.

### KPIs:

# 296,000

Average orders per week

FY17: 264,000

# £106.85

Average order size

FY17: £107.28

# 721,000

Active customer base

FY17: 645,000

# 54,000

SKU count

FY17: 49,000

# 6

Number of Ocado Solutions deals signed to date

FY17: 3

Numbers on a 52 week basis

### Risks:

- Risk of decline in high service levels
- Failure to develop retail proposition to appeal to broader customer and sustain growth rates, and the risk of discontinuing the Waitrose sourcing agreement when it expires in 2020
- Failure to develop sufficient management, technology and engineering capability or bandwidth to achieve all our strategic priorities
- Risk of not being able to execute effectively and efficiently the many Ocado Solutions deals, including where the platform performance proves to be less reliable, potentially resulting in increased project costs and less profitable Solutions deals, also affecting our ability to attract and retain Ocado Solutions partners
- Risk of negative implications caused by final Brexit terms, such as disruption to supply chains and increased in import costs or difficulty in hiring employees

## Progress



With £1.6 billion sales, we have grown strongly over the year, our 12% growth in 2018 outperforming a slow total UK grocery market that grew 2.8%, and outgrowing the online retail market where compound annual growth is forecast to be 8.8% through 2023. We now have 721,000 active customers, an increase of 11% over the year.

We have introduced new ways to help customers shop, such as our in app Meals and Lists feature. This allows customers to group items together into a “meal” and add it to their basket with one click. We have also added receipts into the app. This gives live updates of when your product will expire, what you had delivered, and the price you pay for substitutions. We are currently testing a new “immediacy” proposition – offering groceries within the hour in certain London postcodes. We are always experimenting, and if customers approve of the service, we’ll be expanding it.



We have also led the market in product innovation, for example, increasing our vegetarian and vegan ranges by 15% and adding 600 new products to our organic ranges. Ocado Own Brand continues to grow from strength to strength. Last year sales increased by +15%, making this a brand that is now worth over £140 million a year.

## Future focus

We will continue to provide a superior proposition based upon our ability to do unique things for our customer, and our ability to test in a live environment, iterating quickly to refine our offering across our four retail pillars of range, value, ease of use and service.

## General merchandise retail

Thanks to our centralised operating model, we’ve been able to expand our offer beyond what would typically be found in a supermarket. Alongside the general merchandise products we sell on our hypermarket, we operate three speciality destination sites. These include Fetch, our pet store; Sizzle, our kitchen and dining store; and Fabled, in partnership with Marie Claire, our premium beauty offering.

## Progress



Our general merchandise offer continues to grow. We have expanded our range, adding high-quality retail brands such as Joules, FatFace and Cowshed to the market-leading brands we offer. Such highly regarded names are helping us create an online high street, where people need not shop anywhere but Ocado.



In addition, this year, we opened our second General Merchandise Distribution Center (GMDC), close to Erith, as we have hit maximum sales capacity at our first GMDC. This has given us the capacity to continue to grow our GM business.

## Solutions business

Our Solutions business offers us the ability to take advantage of our best-in-class technology, and the knowledge and experience we gain from our retail business. We can do this by signing partnership agreements with leading retailers around the world, who wish to develop and grow their online presence.

We aim to be the leading end-to-end solution anywhere in the world, from both a consumer experience and operational economics perspective. We believe this goal will be reinforced by working with leading global retailers.

### Progress

We signed three further international partnership agreements in 2018. For Sobeys, Ocado will develop their first CFC in the Greater Toronto area. Working with ICA in Sweden, we are adapting our model to suit the needs of a different business model, based on stores owned by independent retailers, demonstrating the adaptability of the platform. The partnership with Kroger represents an exciting step up in scale, with 20+ CFCs planned for the US.

In parallel, we continue to support our existing partners. For Morrisons, this means the continued roll-out of store-picking capability, and shipping orders from Erith. For Casino, this means the ongoing design and development of a CFC in the South of Paris, and for Bon Preu this means continued support of their online solution, powered by OSP, which went live in November.

We are making the necessary changes to organisational structure and allocation of resource to meet the increased demands of scaling Solutions activity. As we increase in scale, we increase our ability to innovate to improve the experience for our customers and partners.

### Future focus

As the shift of shopping channel continues to accelerate around the world, we remain well positioned to act as a market leader within online grocery. The deals with Sobeys, ICA and Kroger provide continued validation of our business model. We expect to do more deals in the medium term, in a number of regions.

### Key:

-  Constantly improve proposition to customers
-  Strengthen our brands
-  Continuously develop more capital and operationally efficient infrastructure solutions

## Case Study

### Opening in Ohio



This is a significant step toward both solidifying our partnership with Ocado and redefining the Kroger customer experience. The alliance will bring to the US Ocado's unparalleled innovation and technologies. This is exciting news and will help accelerate our vision to serve America through food inspiration and uplift.

#### Alex Tosolini

SVP of Business Development

In an agreement announced in May 2018, Kroger and Ocado formed a strategic partnership. The US grocery retailer ordered three CFCs from us by the end of 2018, and is expected to order 20 CFCs over the first three years of the agreement. With Kroger, we'll open the first of these in Monroe, Ohio, just north of Cincinnati, where Kroger is based. The investment by Kroger is intended to optimise its already significant density in a large region, which also includes the Indianapolis, Columbus and Louisville markets.

The Monroe facility will cover 335,000 sq ft and is expected to generate more than 410 new jobs. It will go live in 2021, with each new CFC expected to go live two years from the order being placed. Kroger is investing across the business to scale its e-commerce operations, and is investing \$55 million to build the CFC. Ocado will be installing and maintaining modules of mechanical handling equipment, and digital and robotic capabilities sufficient to provide an agreed level of throughput.