

# DISRUPTING THE UK GROCERY MARKETPLACE



## EVOLVING WITH CHANGING CUSTOMER BEHAVIOUR

The grocery market has seen enormous change since the days of numerous small independent shops selling to their immediate local street catchment areas. In particular, the way that people shop and the format of retail operations have changed significantly. Changing formats have reflected "channel shift" in the market.

Customers are encouraged to change the way they shop by perceived improvements to the shopping proposition offered to them. This might be in the form of lower prices, wider ranges, more convenience, fresher products or better service levels.

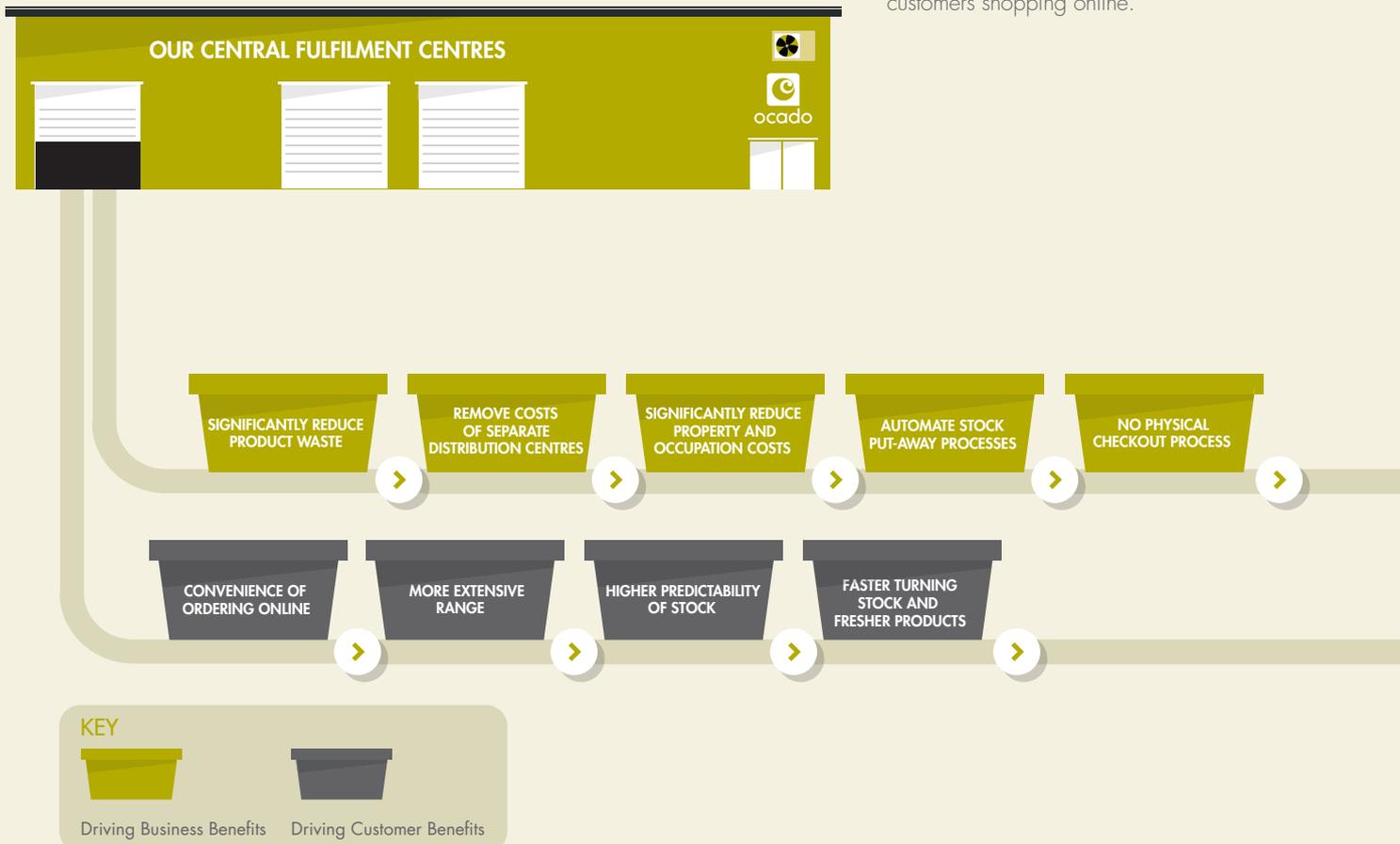
Other social and economic changes have contributed to changing shopping patterns, for example wider car ownership, that has supported the growth of larger out of town stores. Today, the biggest social change is the advancements in technology and how these have impacted on daily life. Wider internet access through personal computers, and more significantly, mobile devices harnessed with increasingly faster broadband speeds, enable people to live their lives using technology more than ever before.

This is reflected in ever increasing numbers of consumers shopping for groceries online. Customers are attracted by the convenience that online can bring enabled by the advancements in technology. As the UK's largest dedicated online grocery retailer, we have been able to place our focus on improving the proposition we offer to our customers. We believe this has encouraged others in the industry to improve their own service offerings to compete, which encourages growth in the number of customers shopping online.

 View more information about maximising efficiency on pages 22 & 23

 View more information online at [www.ocadogroup.com](http://www.ocadogroup.com)

## REMOVING SIGNIFICANT COSTS THROUGH THE SUPPLY CHAIN



### WHY THE OCADO APPROACH IS DIFFERENT

We have two primary considerations – improving the quality of our proposition for our customers while delivering best in class service at the lowest economic cost.

We have developed a different way of operating to the traditional store approach, and one that we believe is more suited for online shopping, fulfilment and delivery.

We have no physical stores, instead using large CFCs where all stock is received and held, and all customer orders are picked. We have automated many of the tasks that are manual in store-based retailing to drive down the operating costs in our operations. We apply proprietary technology, software and algorithms, to optimise our end-to-end operations, from the front end user interfaces, through the entire warehouse operations to the sophisticated routing software making over 3 million calculations a second to optimise van routes. The combination of these elements allows us to lower or eliminate many of the costs which are incurred in traditional grocery retail operations.

### INCREASING EFFICIENCIES

Our operating model enables us to remove several layers of cost. We remove the requirement and cost of separate (regional) distribution centres to receive stock from suppliers, re-palletise and redistribute to stores or dark stores, as we receive the majority of our stock directly from suppliers. We automate the “put away” process reducing operating costs. We have no physical checkout process, because we have no stores, further reducing labour costs.

Our significantly faster stock turn and advanced picking systems reduces product waste, representing both a cost saving and a more sustainable food supply chain. Our property occupation costs are low, for example through the use of relatively cheap real estate (warehouse space), lower energy usage, and better economies of management and scale.

### THE VALUE OF OUR OPERATING MODEL TO CUSTOMERS

The predictability and precision with which we operate our fulfilment enables us to provide what we believe to be the leading service to customers, in terms of accuracy of pick and delivering on time (in a one hour time slot). Our model is very conducive to a large product range, as our infrastructure allows for dense storage and our stock has to be held in only a limited number of locations.

We have higher predictability of stock, which improves our ability to fulfil customers’ orders accurately and with minimal substitutions. With a supply chain that is generally shorter and the scale of facilities much larger than stores, our stock turn is much faster often enabling us to deliver fresher products; in fact we guarantee life of our fresh products. The cost savings generated as a result of our operating model allows for investment into the offer, giving the customer good value at competitive prices.

### THE OCADO WAY



SOLELY FOCUSED ONLINE CHANNEL



OUR CENTRAL FULFILMENT CENTRES



OUR CUSTOMERS HOMES

