

MAXIMISING EFFICIENCY

“We combine the aggregation of scale with the use of automation and optimisation technology to drive the overall efficiency of our business.”

“The in-house nature of our software development allows for rapid solutions.”

LOWERING COSTS

Our goal is to provide the best way for our customers to make their regular grocery shop at the lowest cost. We believe in a centralised approach to fulfilment, which gives a number of significant service and efficiency benefits.

We combine the aggregation of scale into large facilities with the use of automation and optimisation technology to drive the overall efficiency of our business.

OUR CFCs

We have developed unique fulfilment capabilities automating many manual tasks and applying technology solutions and optimisations to operate at the lowest possible cost. This involves optimisations throughout the operation – from receiving, putting away and managing stock, picking and organising orders, to the order dispatch, and efficiently routing delivery vehicles to customers’ homes.

This enables us to operate with high accuracy and availability, both critical to providing customers with consistent and timely service.

Critical to our operations is the software that controls it. This is largely developed in-house, and cannot be bought “off the shelf” on the open market. The in-house nature of our software development allows for rapid solutions as efficiency improvement opportunities are identified. This proprietary technology protects our business, differentiating it, and makes it more difficult to replicate.

We now operate the world’s two largest and most sophisticated single pick grocery stores, our CFCs in Hatfield and Dordon. Our CFCs form a critical part of the unique end-to-end solution we have developed for online grocery retail. The Dordon CFC, which opened in 2013, has the capacity to generate over 180,000 orders per week, equivalent to around £1 billion in annualised sales.

We typically pick and pack for individual customers up to 1 million items of groceries per day in a single CFC. Our CFCs are designed and built to handle the unique challenges that exist in picking groceries with speed, accuracy and efficiency. This complexity exists when you consider we pick a basket of multiple items (typically over 50) across three different temperature zones and having a customer’s order ready to go on the delivery vehicles in the same short time window as the other multiple orders going on the same vehicle.

FUTURE CFCs – CFC3 AND CFC4

In July 2014, we announced plans for our next CFC, located in Andover in the south of England. Significantly, Andover CFC will be smaller than our existing CFCs (capable of 65,000 orders per week or approximately £350 million in annual sales value), but critically will be more capital efficient (using capital expenditure to sales capacity).

We will achieve this improved capital optimisation through the use of our own proprietary physical infrastructure solution, which we have been developing over the last few years. With control over the IP and the manufacturing and installation process, we plan to drive the costs down further.

This infrastructure is modular in nature and can be built almost any size. It is also scalable (it can be built in stages), and is



faster to deploy than our previous solutions (we plan to open Andover by the end of 2015).

Each of these attributes is attractive in adding flexibility to our fulfilment capacity planning for our UK retail businesses, and for our platform business, including for Morrisons.com, offering to future partners the opportunity to start with a smaller initial capacity.

In January 2015, we announced plans for our next location, CFC4, located in Erith in South East London inside the M25. The landlord will start construction on this site in 2015, and we will take occupation during 2016, with this CFC expected to deliver its first orders in 2017. Like CFC3, this will use our proprietary infrastructure, and so will be built in stages but will be capable of handling in excess of 200,000 OPW.

HUB AND SPOKE DELIVERY SYSTEM

We operate a hub and spoke system for our deliveries. All stock is stored and picked in our CFCs (the hubs) and non-food distribution centre. Delivery is made direct to customers' homes from hubs to local catchment customers, with the remainder of orders being "trunked" to spoke sites, from where local delivery takes place.

We forecast future delivery capacity requirements for our retail business and that of our partner, Morrisons, developing our spoke network with additional sites. During the year we opened spokes in Ruislip, Enfield, Sheffield and Knowsley. After the period end, we opened a spoke in Dagenham, and in February 2015 we are due to open a spoke in Park Royal to replace our smaller White City spoke.

We have acquired additional sites and expect to add further spokes in 2015 to satisfy the increasing demand for our business and our partner's business.

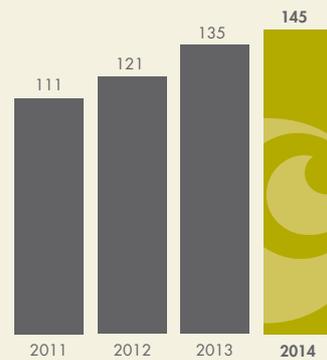
PRODUCT WASTE LOW AND REDUCING

Our centralised model enables us to carry low inventory levels, and despite our relatively high proportion of sales of fresh and chilled products (over 40%), we believe we operate with the lowest product waste in the industry (at significantly less than 1% of sales). This reflects the freshness of the products we deliver to our customers and underlines the relative environmental benefits of our operating model.

1. Mature CFC operations (CFC is considered mature if it had been open 12 months by the start of the half year reporting period).

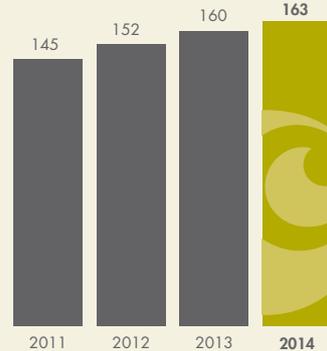
CFC EFFICIENCY

145 UPH¹
2013: 135 UPH



SERVICE DELIVERY EFFICIENCY

163 DPV/WEEK
2013: 160 DPV/WEEK





WE HAVE DEVELOPED
A WORLD LEADING
TECHNOLOGY SOLUTION
THAT POWERS OUR
OPERATING BUSINESS
MODEL FOR ONLINE
GROCERY RETAIL

OCADO SOFTWARE SYSTEM REPLATFORMING

BACKGROUND – WHAT IS IT?

We have developed a world leading technology solution that powers our operating business model for online grocery retail; recently we have used this technology to build our non-food destination stores. Although we developed this solution to power the Ocado retail business, it was always our intention that one day we would make this technology available to other retailers. The deal we signed with Morrisons in 2013 to put their grocery business online was an important step on that journey.

To remain at the forefront of change in the grocery industry it is important that our technology solutions are able to take advantage of the latest developments in using cloud and next-generation software tools.

Therefore, before we make our solution available to multiple retailers in multiple countries, we have chosen to undertake a major replatforming exercise, using the expertise of the Ocado technology team. This involves migrating our solution to the cloud and in the process, transforming our technology stacks.

WHAT ARE THE BENEFITS?

Replatforming will enable us to evolve our customer offer with much greater speed and reliability for our existing retail businesses and for those of our existing and future partners, as well as facilitate international expansion through faster replication, improved business agility and scalability and reduced maintenance overheads.

TIMELINES

The replatforming project commenced in 2014, with the first phase due to be completed during 2015. The project is a continuous process where discrete elements can be utilised as they are completed, with the entire replatformed systems being introduced over the time of the project.

KEY ELEMENTS TO REPLATFORMING

- Modularising our software and services to:
 - Allow parallel development, deployment and faster experimentation
 - Reduce maintenance costs
 - Facilitate integration with third party products/services
 - Facilitate internationalisation
- Transforming the technology stacks to deliver:
 - Improved developer productivity through access to the latest development tools
 - Improved reliability
 - Faster rollout of new software
- Migrating systems to the cloud to:
 - Reduce costs and timescales for international deployments
 - Deliver better integration with partners
 - Deliver access to third party cloud-based SaaS products
 - Reduce/remove the need to build more data centres.



View more information about Ocado Smart Platform on pages 28 & 29



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