

UTILISING PROPRIETARY KNOWLEDGE

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“With our platform, international partners can make full use of their localised expertise in branding, customer relationships and sourcing.”

OUR KNOWLEDGE AND INTELLECTUAL PROPERTY

In building our retail business we have over many years been focused on developing optimal solutions solely for online retail operations, specifically centred on the grocery industry.

The learnings we have, together with the solutions we have developed from our intellectual property, cover the end-to-end process of the “retail mission”, moving a product from a supplier into a customer’s home. We develop proprietary processes, systems and software to improve efficiency and operations, and to provide market leading user interfaces and applications for our customers.

Our software and other technology solutions are developed in-house by a development team of currently over 550 people. Our in-house team enables rapid development and implementation of new solutions for our business, and facilitates regular updates without the need to involve expensive change processes from multiple software providers.

As we have become more vertically integrated in the design and engineering of physical equipment componentry and solutions, we recognise the value of adding more protection for some of our developments through the use of patents. During the year, we filed for multiple patents covering several of our current or potential developments.

WORLD LEADING INFRASTRUCTURE SOLUTIONS

Our knowledge extends beyond software development, with many years of extensive experience of physical mechanical handling infrastructure equipment solutions. Our focus has been to drive efficiency from both a capital expenditure and operating cost perspective, and we have built and now operate the world’s two largest and most efficient single pick facilities.

Our next generation fulfilment centres will use our latest hardware assets, which are entirely proprietary – we own the design, the operating systems and control the manufacturing process. This fulfilment asset solution has many important attributes, making it even more efficient and resilient than our existing CFCs. It is modular (can be built almost any size), scalable (can be built in multiple phases) and faster to deploy (with shorter build and commissioning lead times). In addition, compared to our existing CFCs, we expect it will achieve higher operational efficiency, to be more capital efficient, to require less cubic space and yet still hold a large range of products.

Our solution combines extremely dense storage, rapid retrieval and fast picking of single items. This system incorporates a number of technological advances including a highly sophisticated proprietary communications technology capable of interacting inside a building with thousands of devices, multiple times a second, significantly in excess of any technology currently available commercially.

Our infrastructure knowledge and solutions, combined with our end-to-end technology systems, provides an entire platform for operating online retail businesses, capable of handling the complexities and requirements of grocery retailing as well as general merchandise categories.

LEVERAGING VALUE FROM OUR PLATFORM – MORRISONS.COM

The exploitation of our IP and knowledge platform has continued through our 25 year agreement with Morrisons to launch and operate their online business. Morrisons.com was launched on 10 January 2014 operating from Dordon CFC (on a shared basis with our own business), and utilising our technology platform from the user interface through to optimising the delivery and routing schedules to the customer.

This long-term agreement includes a series of fees, royalties and cost sharing arrangements paid to Ocado. The attraction for Morrisons was the speed with which the service could be launched, the scalability of their operation and



market leading quality of the proposition Morrisons.com could offer to their customers, supported by our platform.

INTERNATIONAL EXPANSION

Online shopping is not restricted to the UK. Growth in online grocery shopping has been slower in many countries than in the UK, largely, we believe, due to the low quality of the proposition offered to the customer in terms of service, range and price.

Nevertheless, incumbent bricks and mortar retailers are increasingly focused on the impact online shopping is having and potentially could have in the future. The fundamental challenge that faces grocery retailers in the UK also faces grocery retailers across the globe — how to offer online services in a profitable, sustainable way. The capabilities our platform provides in offering a compelling proposition to customers, with the efficiency to build a scalable profitable online business, should be attractive to support significant growth in online grocery shopping in multiple markets.

With our platform, international partners can make full use of their localised expertise in branding, customer relationships and sourcing.

We believe there are significant opportunities to leverage our platform with international partners to operate in their local markets.

PREPARING THE WAY FOR FUTURE AGREEMENTS

We have set out three critical areas of focus to facilitate future agreements:

- operating our first long-term contract to the continued satisfaction of our partner, Morrisons;
- the replatforming of our IT systems to enable faster replication, roll-out and lower maintenance costs in the future; and
- to first use our new proprietary infrastructure solution in our own facility prior to any live operation for a new partner.

Morrisons.com has continued to grow. As part of their interim results presentation in September 2014 Morrisons confirmed their “target of annualised year-end sales of £200 million”, a significant ramp up for a new business stream, and operating with industry leading service KPIs (joint with Ocado.com).

Our IT systems replatforming programme is continuing according to plan. This exercise involves a redesign of our existing software which will allow us to move to a new IT architecture, placing software into the cloud, and create smaller code bases to allow faster and simultaneous future development. These changes are to enable faster development for future partners’ online businesses, and significantly lower ongoing maintenance costs.

We have announced our plans for our next CFC, the first using our new fulfilment solution which, with a significant period built in for testing, is due to be operational at the end of 2015. We expect to be able to go live for a new partner after this date.

In the meantime, we continue to develop our relationships with grocery retailers from across the world. There is significant interest in the development of online, and particularly mobile grocery shopping, and how that might impact on incumbent operators and their ability to compete. We believe this is encouraging for the future prospects of delivering more future long-term customer relationships for the Group.



View more information about maximising efficiency on pages 22 & 23





OUR SYSTEMS,
PROCESSES AND
HARDWARE HAVE
EVOLVED OVER MANY
ITERATIONS IN A
LIVE RETAIL
ENVIRONMENT.

OCADO SMART PLATFORM EXPLAINED

BACKGROUND — WHAT IS IT?

Our platform offer, Ocado Smart Platform, is our proprietary solution for operating online retail businesses. It comprises our end-to-end software and technology systems together with our physical fulfilment asset solution, both of which are proprietary.

WHAT IS AN END-TO-END TECHNOLOGY SOLUTION?...

The technology solution enables partners to operate the entire shopping process for their customers using integrated software systems. These include the interfaces with their customers (website, apps), management systems for supply and inventory, management and control systems for the fulfilment centres, and software to optimise delivery routes and to operate contact centres. These systems have been developed in-house over many years for the sole purpose of running and optimising the efficiency of online retail businesses.

...AND WHAT IS SPECIAL ABOUT OUR FULFILMENT ASSET SOLUTION?

We have spent our first 12 years of business life utilising equipment purchased from mechanical handling equipment providers, and over time have increasingly asked for or developed more enhancements to improve throughput and efficiency. We believe this experience now allows us to make significant further improvements. We have set about designing our own assets and using our knowledge base to develop proprietary physical asset solutions. Our fulfilment asset solution is modular (can be built almost any size) and scaleable (can be built in multiple phases). It requires less space than the assets we currently use, but is very range friendly. It is fast to deploy and even more efficient in terms of both capital and operating costs.

The first instance of our new fulfilment asset solution will be installed in our next CFC, which we are currently building in Andover. We plan to start operating from this CFC by the end of 2015.

WHAT IS THE BUSINESS MODEL FOR OCADO SMART PLATFORM?

We plan to sell the entire platform as a fully integrated service, not just physical assets and some technology. In return for a fee structure based on committed capacity, we would provide a partner with the benefits from physical assets sufficient to fulfil a targeted level of sales, together with all of the software systems required to launch and operate their entire online business.

WHY COULD OCADO SMART PLATFORM BE INTERESTING TO INTERNATIONAL PARTNERS?

We believe Ocado Smart Platform offers partners a low risk, fast to market approach for launching or relaunching their online business, with limited capital commitment. Ocado Smart Platform allows a partner to scale their business as sales grow, with attractive economics and the capability to provide a superior customer proposition.

Each element of what comprises Ocado Smart Platform has been developed and is used, or intended to be used, in our own retail operations. Unlike third party providers of products, services and software, we are a primary retailer, and our systems, processes and hardware have evolved over many iterations in a live retail environment.

While primarily designed to cope with the additional rigours and challenges presented in operating grocery businesses online, Ocado Smart Platform can equally be applied to general merchandise product areas.

IS ANYONE USING OCADO SMART PLATFORM TODAY?

While not signed under the Ocado Smart Platform banner, Morrisons became the first customer of our broader platform, utilising our technology solution and existing infrastructure facilities to launch and operate Morrisons.com. Morrisons.com was launched in very quick time (seven months from signing unconditional agreements) with attractive cost economics and best in class service metrics (alongside Ocado.com).

TIME FRAME FOR OCADO SMART PLATFORM DEALS?

We have set out important work streams for preparing our platform for Ocado Smart Platform deals internationally. Our intention is to position our capabilities to sign multiple deals in future years. In order to facilitate rapid replication and multiple instances of our software in the future we are replatforming our IT systems, a process that will continue into 2015. We also intend to operate our new infrastructure asset solution in Ocado.com before using it in a partner's live operation. The earliest date that we could launch live operations for a partner would be in 2016, with an agreement signed at least a year prior to the live operation.