

## Marketplace

“Ocado represents the market-leading model in the expanding online grocery market. We are focused solely on the sale of groceries and non-food online and are committed to growing the online channel without the distraction of legacy bricks and mortar operations.”

Jason Gissing Commercial Director

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### Substantial underlying grocery market in UK

The UK food and grocery market now exceeds £150 billion; it represents approximately 50p of every £1 spent on retail in the UK. The marketplace remains highly competitive and dominated by the big four grocers: Asda, Morrisons, Sainsbury and Tesco. This intensity drives competition for market share with retailers constantly striving to find new ways to strengthen customer engagement and relationships, and increase spend.

The economic downturn has added to pressure on consumers and on retailers seeking to attract their spend. Customers are looking to shop smarter; with factors such as fuel costs and value for money becoming increasingly important. Against the backdrop of this difficult trading environment, which is likely to continue in the near term, parts of the market continue to grow strongly including online, discount and convenience.

### Online grocery market growth

The UK has seen continued internet penetration and e-commerce activity, with online retail activities developing beyond the original early adopters to a more mainstream customer set. Grocery has been slower to develop into an online category. However, the UK has the most advanced online grocery market globally, which has continued to grow rapidly from a small base currently approaching 4% of the total grocery market.

Online grocery is widely expected to become an increasingly significant channel, with all leading grocery retailers carefully considering their online strategies.

## > Improved range and price drives channel shift

1

### PRE 1950s LOCAL STORE

- Limited range
- High prices
- Counter service



2

### HIGH STREET CHAIN

- Wide range
- Lower prices
- Self service



3

### OUT OF TOWN SUPERMARKET

- Wider range
- Lower prices
- Drive to location



4

### ONLINE

- Wider range
- Competitive pricing
- Improved convenience and service
- Best location - your home!



**FACT** MORE THAN 40% OF THE POPULATION INTEND TO USE THE ONLINE CHANNEL FOR AT LEAST PART OF THEIR GROCERY SHOPPING WITHIN FIVE TO TEN YEARS  
Source: IGD



### Structural drivers fuel growth

Significant channel shift has taken place in the UK grocery market over the last 60 years. A movement from local stores to high street supermarket chains was followed by the shift to larger out of town superstores and hypermarkets. In each case the channel shift has been driven by a wider range of product and lower prices. However, with each channel shift service levels and location have become increasingly less attractive to the customer.

The key driver to shifting consumers online is to improve the customer offer and experience in shopping for their groceries. As the online grocery proposition becomes increasingly attractive to the customer, the market will continue to grow significantly into a mainstream grocery shopping channel.

Developing this customer proposition involves providing the widest range of product across food and non-food categories at a price that is at least as competitive as can be found in physical stores. Customers also place great importance on reliable and accurate delivery, product quality and freshness, and overall ease of use.

### Online grocery retail presents unique challenges

The online channel in grocery has been slower to develop than other segments of the retail market partly due to the unique challenges associated with providing this service, with the logistical challenges involved providing one of the biggest barriers to entry.

Fulfilment of a customer order through an online service is complicated: picking an average of over 50 items per order from over 20,000 SKUs across three temperature zones with different product life (ambient, chilled and frozen) for onward delivery to customers in narrow time slots presents many challenges. We seek to overcome these challenges with our unique business model and use of our proprietary knowledge and technology.

### Technology and innovation

Technology and innovation influence many aspects of online grocery retailing. It serves as a driver for underlying demand with increased internet penetration and faster broadband speeds. It also deepens customer engagement through, for example, the increase in using mobile devices and tablets as a shopping tool. Technology and innovation are key to addressing many of the challenges in providing a superior online grocery proposition, both for the customer (easy to use websites, mobile device apps for checkout) and to drive operational efficiency in the supply chain and fulfilment.



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### Different online strategies

There is no single strategy for online retailing. In the grocery sector, different approaches are being adopted, with traditional store-based retailers largely using existing stores or store-based systems. By contrast, Ocado uses a centralised picking model, with a spoke distribution network. This pioneering approach has been developed by Ocado over several years using its own bespoke systems, know-how and software, making such a model difficult to replicate.

### 2012 and beyond

Further growth in online grocery retailing is set to continue. Significant development of the customer proposition within the channel will hasten this growth and transform such a channel migration from a niche activity to a full market shift representing a sizeable part of the UK grocery market.

