

Questions and Answers

Tim Steiner, Chief Executive Officer, addresses some of the most frequently asked questions about our company.



Tim Steiner
Chief Executive Officer



Q. What are the main trends driving your marketplace, in particular, how are you affected by key competitors investing more in their online operations?

A. A number of factors, including fast growing internet and smartphone penetration, an increase in available product range, lower prices, convenience, time and fuel savings are driving a sharp increase in online shopping. In particular, the advantage of shorter time slots for delivery are starting to influence customers' decisions to buy groceries online. Investment in online by competitors is good for us as it acknowledges online as an increasingly significant channel. 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.

Q. Are you concerned about reports that competitors are opening their own automated "dark stores"?

A. It is interesting to hear about our competitors' dark stores. We see reports of bigger warehouses and increased automation as a further validation of our model, which we have been operating and building knowledge of over the last ten years. We believe our centralised picking model is significantly more efficient than the online operations of our peers. We will continue to build our offer to our customers, to continue to attract those converting to the online model.

Q. You are sometimes referred to as "Waitrose on wheels" but they are now offering their own online grocery service. How does this impact on the Ocado business?

A. We enjoy a long-term relationship with Waitrose. We are two independent retail groups, and as such it is only natural that Waitrose should continue to develop their own online offer, which pre-dates our business. We believe their business model is quite different to ours, centred on their store assets. We see any investment into online grocery retailing that they make as positive in converting shoppers from store-based to online, and we further believe that our customer proposition driven by our unique business model positions us well to subsequently attract disproportionately high numbers of these online shoppers to shopping with Ocado.

Q. How does the broader economic downturn impact you?

A. Customers become ever more discerning about price and value for money. Our efforts to continually improve the customer offer with a broader range, offering different price points and more choice, together with the multitude of initiatives we have to lower prices for customers which include Tesco Price Match and the Ocado Saving Pass, are key to continue attracting and retaining customers. While customers may put an item or two less in their shopping baskets, this is generally offset in value terms by inflation. Fuel costs have continued to rise and customers are increasingly attracted to the convenience, cost and time saving that shopping online brings in difficult economic times.

Q. What do you see as key to driving your proposition to customers?

A. We seek to provide and have available the widest range of any grocery store, offer competitive pricing and sufficient price points in each category without compromising on quality or freshness. We use our innovative approaches and advanced technological knowledge to make our service the easiest to use for customers and to drive efficiencies through the entire process to give the best customer service and maximise long-term financial returns.

Q. How does expansion into own-label and non-food complement your strategy?

A. Offering a broader range and different price points are both critical in attracting and retaining customers. Our own-label strategy forms part of our initiative to address both of these key drivers of customer demand. Our own-label products now feature in 70% of our customers' baskets.

We already sell non-food products which are adjacent to our grocery offer. We intend to further expand the number of non-food lines this year, which will offer more choice, and allow customers the ease of also having their non-food items delivered in dedicated one-hour timeslots rather than having to seek alternative destinations to complete their weekly shop.

Q. Will you be expanding your service into other parts of the UK?

A. We currently cover over 70% of the UK population. Our immediate strategy is to consolidate in existing delivery coverage areas by improving the drop density for each of our delivery vans, hence driving efficiency, returns and the investment we can put back into the customer proposition. At the same time we constantly consider the viability of introducing our service to parts of the UK currently not covered by Ocado.

Q. Do you intend to further broaden your appeal beyond your more traditional higher income customers?

A. Ocado is a shop for everyone. We want to be seen as the grocery retailer of choice for the ordinary shopper who seeks quality products at competitive prices. Our customers come from a cross-section of income and age demographics. Our focus on extending our product range to one that will exceed even the largest store-based supermarkets, coupled with our pricing initiatives are further driving our growth and reach to a broader cross section of the UK population.

Q. How do you ensure that your employees are engaged with the business?

A. We run an annual employee survey across the whole business to measure levels of employee engagement and to identify areas that need improvement. Employees are kept informed of the business' performance and key events that may affect performance through regular business briefings and electronic communications, which also make our employees aware of the various factors that can affect the business' performance. We have also introduced a management development programme, which gives employees the opportunity to progress their career within Ocado.

Q. How important is technology to your business?

A. Technology and innovation is at the heart of Ocado's business. We develop our own software, which gives us a proprietary knowledge base that acts as a natural protection against competitors.

We are able to utilise our technology platform and innovative approach to better engage with the customer through easy to use interfaces. We were the first in the market to develop a fully transactional app for the iPhone and now have apps across all major operating systems for mobile devices, and are constantly improving our Webshop. At the same time, we deploy our technology to drive the efficiency of our operations in order to fulfil our customers' orders with market leading service levels.

View our online video at <http://ocadogroup.com/about-us/introductory-video.aspx> to see the impact of technology in our business.

Q. There was a lot of talk of capacity constraints which caused some disruption last year and which had an impact on growth. Have these now been resolved and can we expect service levels to return to previous highs?

A. We were naturally disappointed with the levels of customer service that we delivered during the latter part of 2011, which while still market leading, fell below levels that we, and more importantly our customers, have come to expect.

We are however confident that the operational challenges in CFC1 which gave rise to the above are now largely behind us. These related to a variety of capacity expansion projects and additional maintenance or improvement work. This had an impact on short-term capacity and efficiency while we continued to fulfil customer orders from Hatfield. The majority of this work has now been completed, and as the capital investment projects have gone live we have seen capacity build. Moreover, we now have a much more robust operational infrastructure to service and drive expected future growth.

Q. How are you working towards reducing Ocado's environmental impact?

A. The way the business operates using an automated CFC means that our product waste is very low, at only 0.70% of revenue in the period. Most of our product waste is within the "use by date" and is sold, at a discount, to a specialist food distributor. We help our customers reduce their own wastage, by showing guaranteed product life on the Webshop and including 'use-by' dates on order receipts. We use a number of initiatives to reduce the impact that the business has on the environment, including closed loop carrier bag recycling, green van deliveries and ongoing energy efficiency projects in CFC1. We also use electric vans as part of the delivery fleet at our London spokes.