

# Chief Executive Officer's review



"We continued to achieve double digit sales growth during 2012 with increasing rates of sales and new customer momentum as we moved into 2013. This has been driven by further improvements to our core proposition to customers — better value, wider ranges and enhanced service."

**Tim Steiner**  
Chief Executive Officer

We have continued to make significant progress in creating a virtuous cycle between growth and developing a long-term sustainable and profitable business. This has been achieved against the backdrop of the softer economic environment in the UK which looks set to continue.

## Strategic objectives

Our strategic objectives centre on driving growth and delivering long-term profitability. There are a number of complementary elements to these objectives:

- ▶ Developing our proposition to customers to retain our market leading position in terms of service, range and price;
- ▶ Growing customer numbers and spend – building an ever growing base of loyal and valuable customers and encouraging them to spend more at Ocado;
- ▶ Optimising operations – to operate at the highest service levels with the lowest possible cost;
- ▶ Building capacity to satisfy increased demand and drive scale benefits; and
- ▶ Developing and leveraging our proprietary intellectual property and technology to improve our operations, and to generate significant value through monetisation.

## Developing the proposition to customers

What attracts customers to shop with us is our quality of service, the range we sell and confidence in our prices.

We continued to deliver to customers with, what we believe to be, market leading accuracy and on time performance. Orders delivered on time or early improved to 92.7% and order accuracy was maintained at 98.3% during the period.

We continue to improve our customers' shopping experience to make it quicker, easier and more convenient. We launched latest generations of our range of mobile apps to remain at the forefront of the mobile shopping trend, with 28% of checkouts now across apps, and mobile checkouts across our website continuing to grow strongly. Further examples of service enhancements added in the past year include text messages to customers indicating the expected 25 minute delivery windows within the one hour slots, real time order tracking, and new services allowing customers to login to Ocado using their Facebook accounts, and to start shopping with Ocado through the BBC Good Food recipe website.

We extended our range by more than 40% to over 28,000 products, now wider than any supermarket. We continued to add more branded lines, together with additional specialty lines such as Swedish and Spanish food categories and the largest "free from" range in a supermarket, now with almost 800 lines.

The Ocado own-label brand continues to gain popularity amongst our customers who recognise the quality and value for money that it represents. Sales of the Ocado own-label range continued to grow strongly, up over 70% year-on-year, with over 77% of our customers' baskets now containing at least one Ocado own-label product.

Product freshness remains very important for customers in their choice of shopping destination. We continue to provide Life Guarantees on our fresh produce, guaranteeing a minimum product life. We believe that our business model allows us to run with lower levels of waste than our competitors, less than 0.7% of revenue.

We also significantly increased our non-food range, now numbering over 8,000 SKUs, particularly in Home, Health & Beauty, Baby, and Pet. With increased demand for non-food products to be delivered in convenient one hour time slots at the same time as their groceries, we plan to expand this range to 15,000 SKUs by the end of 2013.

We continue to work hard on our price competitiveness to give better value and price confidence to our customers. Working with the support of many of our suppliers, we believe that we now offer a level of promotional activity similar to the largest players in our industry. During the year we also launched Low Price Promise ("LPP"), our new basket matching initiative which covers both branded and standard tier priced own-label products. The early results of LPP are encouraging, with improved customer confidence in our value and stronger sales growth since launch.

## Customer and sales growth

Our Active Customers at the end of the period stood at 355,000, up from 298,000 at the start of the year. We saw some softness in new customer acquisition during the summer months but Autumn initiatives such as new customer acquisition partnerships and a stronger price message increased the rate of customer acquisition in the final quarter compared to the previous year. We have observed that an increasing proportion of new customers have shopped online before with our competitors.

During the second half of the year we continued to retain a similar proportion of new customers while reducing retention voucher spend, helped in part by the introduction of the LPP, our basket matching scheme.

Our customers' average baskets stabilised during the course of the year standing at £112.17 by the period end, broadly the same as the previous year. The combined effects of a natural slowing of Delivery Pass adoption, range expansion and other initiatives has offset the effect of challenging economic conditions on customer spend.

## Optimising operations

We have made good progress in expanding capacity and efficiency in the Hatfield Customer Fulfilment Centre (“CFC1”), with several new enhancements going live, notably a new large storage and fast picking machine, our ambient automated storage facility, and crane improvements. During the period we removed all remaining ambient and chilled trolley picking from our fulfilment system and introduced the first automated bagging machine.

The highest number of orders delivered in a week exceeded 140,000 during the period, and peak day volumes ran consistently at new record levels.

Efficiency levels have improved through the year. Using the units per hour efficiency measure (“UPH”), the average productivity in CFC1 for 2012 was 120 UPH, up from 111 UPH in 2011. Significantly, H2 showed steady improvement over H1 (126 v 114).

We expanded our service delivery network with the opening of our Oxford spoke in January 2012, allowing stronger growth in this region. The increasing scale of our business, combined with improved running efficiency of the CFC, has contributed to continuing improvement of our delivery performance, with deliveries per van per week (“DPV/week”) of 151 peaking at 170. We expect delivery efficiency to increase further as our business continues to grow with the opening of CFC2.

## Building capacity

Progress has continued according to plan at our second fulfilment centre, CFC2, in Dordon, Warwickshire, and the project remains on budget. Equipment testing started in early summer, and systems testing commenced according to schedule later in the summer. We started receiving stock from suppliers at the end of January 2013 and went live with the first customer orders picked on 24 February.

We also commenced the fit out of a non-food distribution centre in Welwyn Garden City, Hertfordshire, which we opened in January 2013, one month ahead of schedule. This will support the longer-term growth in non-food.

## IP and Technology leadership

Since inception we have utilised proprietary IP and technology as the foundation for our business. Maintaining and growing technology leadership in systems, processes and equipment supports our market leading proposition to customers and drives operational excellence. In 2012 we continued to develop our suite of IP with many technology improvements across the business from improved user interfaces on our website and mobile apps, to real time simulations of our CFCs to improve operations and flow analysis. This technology leadership gives us opportunities to generate significant value for Ocado through monetising our IP knowledge in the future.

## People and recognition

Central to our success is the energy and commitment of nearly 6,000 employees across the business. I want to acknowledge their tremendous efforts made throughout the year. We continued to work with and listen to the views of our employees through the Ocado Council, with USDAW representatives participating for the first time during the year.

Once again, our customers regularly commented on the outstanding service provided by our delivery team of over 2,000 Customer Service Team Members.

We were delighted that we were recognised in the PayPal Awards as Best Pure-play Etailer and for the way we have embraced mobile with the Award for the Best Use of M-Commerce. We also received recognition with a number of other awards during the year, notably Best Online Retailer and Best Family Brand in the Loved By Parents Awards.

## Current trading and outlook

Ocado achieved gross sales growth of 11.4% in 2012, with a run rate of growth of 14.2% for the six trading weeks to 6 January 2013. Our ability to grow significantly faster remains limited in the very short-term due to the current capacity limitations of CFC1. However, we opened our second fulfilment centre in Dordon on 24 February 2013, which will give us significant additional capacity to grow into as CFC2 ramps up.

Against a tough economic environment, we continue to see that shopping online for groceries is of increasing importance for consumers evidenced by the online growth figures reported across the grocery industry. As more and more shoppers leave physical stores to shop for their weekly groceries from the comfort of their own homes, we have seen our competitors investing more into the online channel.

We believe we are well positioned to benefit from this continuing growth in online demand with our market leading offer to customers, and unconstrained by the concerns of cannibalisation of existing stores. It is our mission to continue providing a shopping proposition that offers far more than a traditional supermarket, in terms of convenience, usability, service, range and price. Our focus and business model position us strongly to drive growth and profitability in the future.



**Tim Steiner**  
Chief Executive Officer