



Tim Steiner
Chief Executive Officer

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Read about Our Strategy on pages 16 to 23



See the KPIs that measure the success of our strategy on page 36



Read the Chief Executive Officer's Review on pages 24 to 29

1. Chief Executive Officer Q&A

Q: 2015 was described by many as challenging for the UK grocery industry. To what extent was Ocado affected by industry conditions and what actions have you taken to navigate this environment successfully? Do you see conditions improving?

A: Price competition and deflationary pressures have created a tough environment for grocery retailers, intensified by cost inflation. We do not expect this bleak combination to change quickly.

While Ocado is not immune to these external market pressures, particularly as we adopt a price following policy (our price comparison currently matches against the biggest competitor, Tesco), our range helps mitigate the impact. We offer a wider product assortment than our competitors, and we have a great number of products that are not sold by other retailers and hence not subject to the same pricing pressures.

Furthermore, we continue to grow sales and order volumes, which has a positive impact on our operational cost efficiencies and helps mitigate the impact on gross margin.

We will continue to focus on improving our proposition to customers - the more they love shopping with us, the more they will shop with us - and this growth should support improving efficiencies across the business, further strengthening our position.

Q: You have previously announced plans for the next two CFCs. How are these progressing? Will you require further capacity in the future?

A: Work has progressed well at our third CFC located in Andover, Hampshire, in the south of England and we are scheduled to commence operations there shortly. This CFC incorporates the first installation of our new proprietary fulfilment solution.

The Andover CFC will add capacity of around 65,000 orders per week or approximately £350 million in annual sales when at full scale, enabling us to pursue our growth plans further. The next generation infrastructure solution employed in the Andover CFC features our own design and engineering, which not only carries a lower capital cost for the fulfilment compared to our earlier CFCs, but will also be more efficient to operate at maturity.

Our fourth CFC in Erith in South East London is also progressing well. The property developer commenced works at the site in 2015 and we expect to start our own works at the site later this year, in line with the scheduled plan to commence operations by the end of 2017. The Erith CFC will add over 200,000 orders per week (or approximately £1.2 billion in annual sales when at full scale) and, like the Andover CFC, it will use our proprietary fulfilment solution.

We continue to manage and monitor our future capacity requirements carefully to ensure there is sufficient capacity available to meet our continuing ambitious growth plans. The modularity and scalability of our infrastructure equipment solution adds significant flexibility to the capacity planning for our retail business and for that of our future platform partners.

Q: Please outline your international aspirations. Can you give us a flavour of your future ambitions outside the UK and should we expect to see deals in 2016?

A: We plan to work with international retail partners with our Ocado Smart Platform solution. Ocado Smart Platform is an enabling platform that provides the end-to-end solutions needed to run online businesses covering e-commerce, fulfilment and distribution activities. It is underpinned by our expertise and experience as a dedicated online operator over 15 years.

While we did not hit our target of signing our first deal in 2015, we remain confident that there is significant appetite for our Ocado Smart Platform among international retailers.

Ocado Smart Platform offers partners a low risk, entire solution for online retailing, enabling them to build a scalable, profitable business, but also where retailers own and can broaden and deepen their existing customer and supplier relationships.

We continue discussions with multiple retailers across several geographies and remain confident of signing multiple agreements in the medium-term.