

5. Our Business Model and Partners



Case Study

Morrisons One Year On

- 25 year agreement to provide technology, infrastructure and operating services to launch and operate Morrisons.com, the online business of Wm Morrison Supermarkets PLC, becoming the first customer of our broader platform
- Morrisons.com was successfully launched on 10 January 2014 in a very quick time frame with attractive cost economics and best in class service
- Morrisons.com operates from our Dordon CFC (on a shared basis with our own retail business) and utilises our technology platform from the user interfaces to optimising the delivery and routing schedules to the customer
- Since launch, Morrisons.com has developed well, announcing a sales run rate of £200 million* after just 12 months of operations and continuing to grow well. Crucially for Morrisons, the agreement has enabled them to develop their own online business, maintaining and enhancing their relationship with their customers, their data, and suppliers
- Morrisons.com takes all commercial decisions regarding marketing, range, price and promotions. It continues to operate from our Dordon CFC and utilise many of our spoke operations.

* Morrisons Annual Report, March 2015



MORRISONS

Waitrose

marieclaire

Ocado is a Pure-Play Online Operator

Ocado is entirely focused on online activities. We are not burdened by a legacy estate of existing supermarkets, which are facing declining sales volumes, margin pressure and less flexibility to invest in the customer proposition.

Since formation we have developed a unique end-to-end platform solution for online retailing. Our know-how and expertise allows us to provide a best in class proposition to both our consumer and corporate customers, delivering continued growth in the UK market and monetisation opportunities through international platform partnerships.

Our business comprises retail and platform operations, both enabled by our proprietary technology and IP. Creating virtuous cycles and monetisation benefits from our business is core to building long-term shareholder value.

Our Retail Operating Model

Our objective is to operate a high quality service at the lowest possible cost and to create a virtuous cycle between growth, innovation, efficiency and investment. We achieve this through combining three key elements – the aggregation of scale into single facilities, the automation of many processes, and application of proprietary technology – to remove significant costs commonly incurred by store-based retailers.

Our centralised approach allows us to aggregate greater scale into single locations, and to invest in automation to replace many of the manual tasks in retailing. We utilise our proprietary end-to-end technology platform to optimise our entire operation from the user interfaces, the stock and order processing systems, through to the final delivery to customers' homes. Our model enables us to invest in the proposition to customers and allows a wider range at competitive prices together with a market leading service.

Our improving proposition enables us to grow faster, and with increasing scale we benefit from improved efficiencies and expanding margins, which can be used to further invest in the proposition to encourage more growth. As we

get bigger our relative purchasing position also improves. The efficiencies inherent in our model increasingly outweigh any purchasing disadvantage we may have due to our relative small scale today.

Our Platform Operating Model

Ocado has developed an entire end-to-end solution for operating online in the grocery market, vertically integrated across software and physical solutions. We are able to replicate these capabilities for partners in other markets at a significantly lower cost and with higher efficiency than alternative options available in the market. Morrisons is our first customer of our broader platform following the launch of Morrisons.com in January 2014 (see Case Study).

Ocado Smart Platform is offered as a managed service capability to partners internationally, harnessing the capabilities of our platform with partners' local retailing skills and attributes, enabling them to build sustainable, scalable and profitable online grocery businesses in their own markets.

Ocado Smart Platform offers partners a faster, flexible, lower risk and more cost efficient way of entering or improving their online grocery business.



Read more about Ocado Smart Platform on pages 10 and 11

Suppliers and Operational Partners

We have built strong relationships with our suppliers, which include global consumer product companies supplying branded ranges as well as food producers supplying our private label selections, and smaller local, niche, international and specialty suppliers. We currently work with nearly 2,000 different suppliers spanning large and small British and international companies to supply our Ocado, Fetch and Sizzle banners.

In February 2015, we announced a partnership to develop a premium beauty business alongside Marie Claire, which we intend to launch later this year.

Waitrose

We enjoy a long-term sourcing agreement to 2020 with the UK retailer Waitrose (part of the John Lewis Partnership). This combines our respective product volumes to improve supply terms, and enables us to sell Waitrose branded products on Ocado.com. We pay Waitrose a sourcing fee under the agreement.

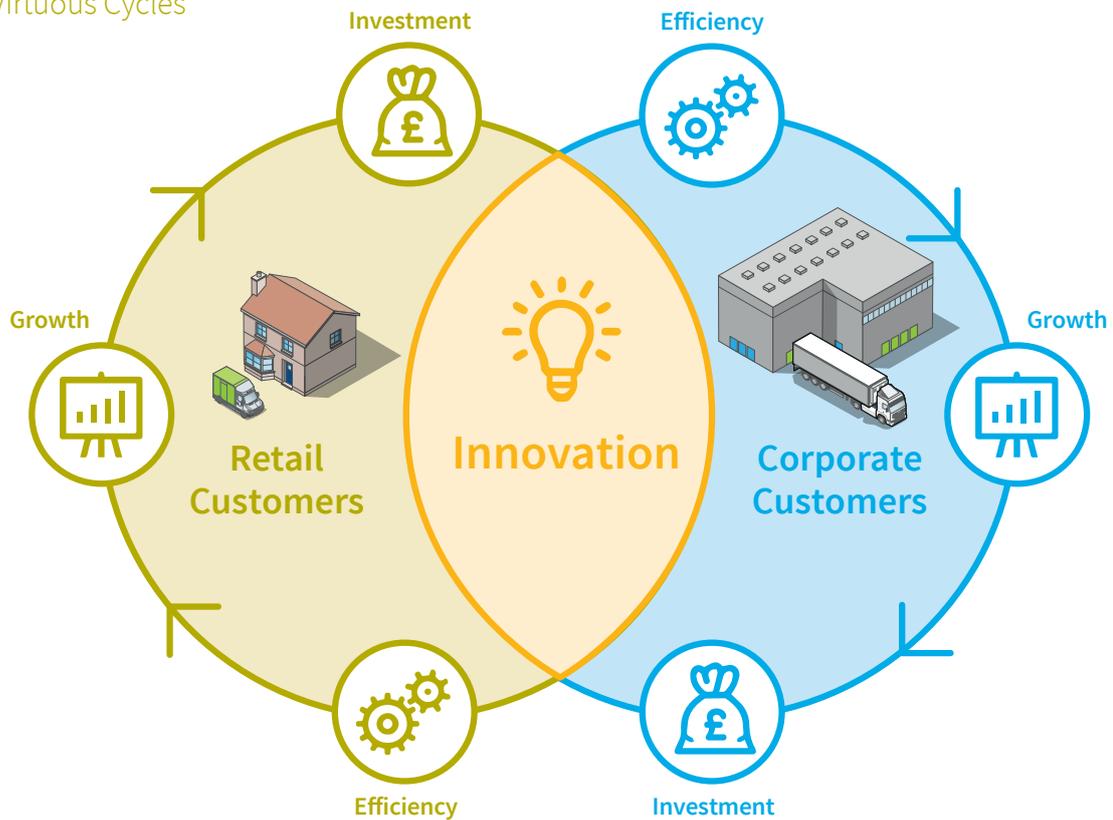


Read about Our Strategy on pages 16 to 23



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

Ocado's Virtuous Cycles



Our business model framework comprising retail and platform operations

	Retail	Platform*
Proposition	<ul style="list-style-type: none"> • “Market leading” service <ul style="list-style-type: none"> – Order accuracy – On time – Ease of use • Extensive range and fresh products • Competitive prices and low delivery fees 	<ul style="list-style-type: none"> • End-to-end platform solution to run online grocery operations • Provided as a “managed service”
Growth Drivers	<ul style="list-style-type: none"> • Constantly improving proposition • Innovation and technology led service and usability improvements • Investment into range and price competitiveness • External technology developments (e.g mobile) 	<ul style="list-style-type: none"> • Continued channel shift to online gathering pace globally • Competitive threat • Constantly improving quality of Ocado Smart Platform proposition • Service priced to encourage partners online growth
Economic Model	<ul style="list-style-type: none"> • Product sales • Supplier income • Delivery income • Product margins • Operating efficiencies 	<ul style="list-style-type: none"> • Fee structure <ul style="list-style-type: none"> – One off in nature – Recurring • Continually reduce cost of providing the service <p>* Morrisons agreement terms structured differently to Ocado Smart Platform but similar principles.</p>