

6. Our Marketplace

The Continuing Channel Shift

Online was the fastest growing channel for grocery distribution in 2015 as customers continued to migrate to online shopping. Research published by IGD suggests that online will remain the fastest growing channel in the UK, with sales projected to almost double by 2020 as consumers increasingly appreciate the advantages of shopping for groceries online. IGD estimates that currently around 5% of UK grocery shopping is online, amounting to £8.9 billion in sales, and anticipates that this will grow to 8.6% of the market by 2020.

Technology will continue to shape the future of grocery, and is playing a major role in accelerating the channel shift to online as retailers can leverage technology to satisfy the rising trend of anytime and anywhere shopping.

The dramatic impact the online channel has had in other retail segments, such as books, music and clothing, emphasises the significant opportunities for online in grocery.

With online, there is the opportunity to improve every element of the proposition for the customer, giving the benefits of more convenience, better service and greater usability, wider choice of products and strong value for money. With each element of the proposition improving, and enabled by ever improving technology advances, more customers are encouraged to adopt this growing retail channel.

At Ocado, we are at the forefront of, and benefit from, this channel shift in the grocery industry.



Size of the UK Retail Market

The size of the UK grocery market is substantial. IGD estimates that in the year to April 2015, UK grocery sales reached almost £178 billion and is expected to increase in value by 13% to £201 billion over the next five years.

The so-called big box stores (supermarkets, superstores and hypermarkets) still account for around 60% (IGD) of all grocery sales, but have continued to report slowing sales, and in many cases absolute declines.

Growth in grocery retail has traditionally been driven by the “space race” model for growth, characterised by the opening of new store space in the form of new stores or extension of existing stores. The relatively expensive real estate which is frequently tied up in long leases requires a growing customer footfall to be economically attractive. Recent industry dynamics have shifted towards the rapid growth of new store formats, notably hard discount and convenience stores, growing significantly ahead of traditional supermarkets by driving a particular element of the proposition to customers, namely price or convenience.

There has also been continued significant growth in online grocery shopping. This shift in channel, away from physical shops, is potentially the most significant.

The UK is the world’s most penetrated market for online grocery (IGD) and set to continue growing at a rapid pace and innovation. Online and discount formats are forecast to account for a combined contribution of 80% of UK industry growth in the next five years.

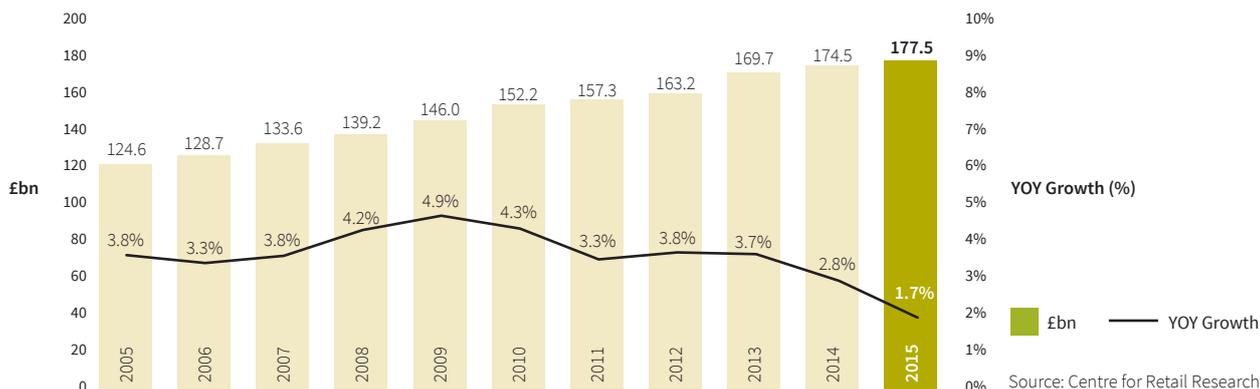
Global Retail Opportunities

There are also significant opportunities outside of the UK. Grocery is the largest segment in global retail with an estimated global grocery market size of \$9 trillion, growing to \$12 trillion by 2020 (IGD, August 2015). Global grocery retail has undergone a number of changes, and the adoption of the digital channel, which historically has been slower than in the UK, is expected to play an increasingly important role. This offers huge market opportunities on a global scale. See the 10 largest online grocery markets globally on the opposite page.

Time pressed shoppers are increasingly using mobile technology, driving global demand for online grocery shopping, supported by very fast broadband, wireless and extensive cellular network coverage.

We believe the attractions of shopping online should appeal as much to consumers internationally as those in the UK.

Size of the UK Grocery Market



However, unless the overall proposition offered to consumers is relatively more attractive to customers than the existing store option, then adoption will be slower. Online requires high levels of service to be attractive. If customers are not offered a fast, reliable and accurate service with high levels of freshness and availability of products at a similar price to the bricks and mortar competition, then few are likely to adopt the online channel.

In the UK, where the proposition online has become increasingly attractive compared with the existing store channels, adoption continues to grow. With Ocado as the clearly focused pure-play operator in the market taking service to new levels, others have also had to offer improved services, usability and interfaces, which in turn drives market growth.

However, there are great differences in how food is purchased across the world and grocery retailing should in many ways be considered a “local” business. While product brands can be global in nature, customer preferences, retail brand recognition and loyalty are driven locally. Equally as important is product-sourcing capability, which tends to be managed through local account managers, and the value of sourcing local produce speaks for itself.

Ocado Smart Platform – Uniquely Positioned to Take Advantage

Ocado Smart Platform offers an entire end-to-end solution for operating online in the grocery market, vertically integrated across software and physical solutions. It is offered as a managed service capability to partners internationally, with the intention to harness 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.

The Ocado Smart Platform offers partners a faster, flexible, lower risk and more cost efficient way of entering or improving their business in online grocery. By offering the only fully integrated end-to-end platform available, we are uniquely positioned to take advantage of the growing global trend of online food shopping.

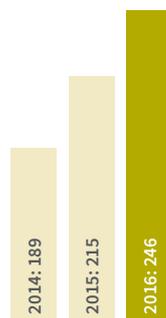


Online Retail Sales Europe (£bn)



Source: Centre for Retail Research

Online Retail Sales US (£bn)



Source: Centre for Retail Research



Top 10 Online Grocery Markets

2015	2020 (estimate)
1. China \$41bn	1. China \$178bn
2. UK \$15bn	2. UK \$28bn
3. Japan \$12bn	3. Japan \$22bn
4. US \$9bn	4. US \$18bn
5. France \$7bn	5. France \$16bn
6. South Korea \$7bn	6. South Korea \$13bn
7. Germany \$3bn	7. Germany \$6bn
8. Australia \$2bn	8. Australia \$5bn
9. Belgium \$1bn	9. Belgium \$2bn
10. Netherlands \$0.5bn	10. Netherlands \$2bn

Source: IGD website 2015