

# Ocado: to invest or not to invest?

[Business](#), [Company](#)



## **Introduction**

This report is intended for an investor who wishes to know more about the prospects of Ocado. Ocado has had a short but financially chaotic history and, as expounded upon in this report, faces a perilous future and monumentally competitive and challenging future.

Ocado, like many other technology companies that were conceived during the “ dot-com ” era, seemingly came out of no-where. The founder, all former bankers, had little or no experience in the supermarket industry yet have seen their company grow at an impressive rate.

Ocado is, for now, in the FTSE 250, which is a remarkable achievement for its age. Yet it is clear that the company is at a cross road. Some pressing questions are posed in this report concerning the viability of their business model.

The authors of this report also carefully examined the ethical issues that surround Ocado. In the 21st century there are many investors who wish to ensure that their money is not going towards an unethical enterprise. It is for this very kind investor that this report includes a detailed analysis on the behaviour of Ocado.

Important editorial note: The authors have been extremely careful to remain as objective and unbiased as possible. All information is true at the time of writing. All sources that have been used have been collected together in the “ Consolidated references ” section of this report. This decision was taken to

make the report flow better and thus improve the reading experience of you, our reader

### **Company Information**

Ocado plc is a United Kingdom based online grocery retailer, which was founded in April 2000 by three ex-Goldman Sachs bankers the company went public on the London Stock Exchange in 2010 and is a member of the FTSE 250. Since their launch in 2000 they became the world's largest dedicated online grocery retailer with over 580, 000 active shoppers. In 2009 Ocado introduced 'Ocado on the Go' smartphone app this allowed customers shop without the need of a PC. Ocado's main activity is the online retailing which offers customer a convenient way to do grocery shopping particularly in comparison to traditional supermarkets. The other service that they provide is the 'Ocado Smart Platform' which is a platform offering end to end operating solutions for the online retail based grocery, it combines end to end software technology with its physical fulfilment asset solutions. Their other brands include Sizzle, Fetch and Fabled. Sizzle is a kitchen and dining store. Its beauty store is in partnership with Marie Claire.

Ocado's operating model is one of their USP; it is an end-to-end solution for bringing the groceries straight from supplier to the customers. Traditionally online supermarkets utilise their existing stores or "Dark-stores" which in essence are small warehouses with limited automated process to fulfil their orders and deliver the groceries from them. Both approaches incur high operation costs because of its delivery channels and high rents they drive down the profit margins significantly. By contrast Ocado adopted a different approach they use big centralised warehouses and pickup facilities which are

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twenty times bigger than a 'dark store' and the majority of its operating is automated.

Ocado claims that by using an automated centralised pick up facility they can be more efficient. This, Ocado claims, helps lower costs and with further expansion planned Ocado hopes to exploit the opportunities of economies of scale. On the other hand, a fifteen year study from Deutsche bank suggests that this will still not give the firm a cost advantage in fulfilment compared to the traditional 'dark-store' retailer.