

# Episode 39: Establishing an eCommerce Strategy, Team and Capabilities

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**Keith Anderson:** Hello and welcome to another episode of the Profitero podcast. I'm Keith Anderson of Profitero and my guest today is Tim Madigan, VP of eCommerce for Tyson. Tim has been around the CPG industry for a long time, started his career at Procter & Gamble, then led eCommerce globally for SC Johnson, and for the last year or so he's been leading eCommerce at Tyson, supporting their work with online grocers and helping pioneer Tyson's new kit offering.

We get into what it was like to play a pioneering role in establishing an eCommerce capability at some of the world's leading CPG companies, what that team and capability and strategy ultimately looked like, and what's unique and different about leading eCommerce for a company that sells perishables instead of shelf stable products. It's a really rich discussion. I always learn a lot from speaking with Tim and I'm sure you will too. So, let's hear from Tim Madigan of Tyson Foods. Tim, thanks for joining me. How are you?

**Tim Madigan:** Good Keith. How are things?

**Keith Anderson:** Things are fantastic. The summer is going well. I hope yours is?

**Tim Madigan:** It has. We've had this great time with the family, and yeah, it's been awesome.

**Keith Anderson:** Good to hear. I gave a very brief introduction to who you are and what you do, but it's always better hearing it directly from the source, so maybe we can start just with a little bit about what you're up to now at Tyson and your background?

**Tim Madigan:**

Yeah. Sure. I started my career with Procter & Gamble, and it's actually been about 20 years almost to the day that I started that. I was there for about 17 years, so most of my career was with P&G. Really it was a traditional sales and marketing background, so the field selling assignments and customer teams, and did a brand rotation. Then about seven or eight years ago I found myself down on the Walmart team doing a traditional selling assignment there and it was at the time that Walmart approached P&G and said we want to start selling diapers and beauty products and want to figure out how we should go about doing that, and my team president at the time asked me to take that responsibility on.

It was an interesting five years with Walmart, starting from kind of almost by accident selling like \$30,000 worth of stuff through a distributor to really having to understand what makes eCommerce work. At the time, we had a Amazon team, but that was about it. No real internal infrastructure, and so it was just the two teams trying to understand the space, build everything from logistical capabilities to system integrations, figuring out how you set an item up online, to the merchandising and marketing strategy. It was really an end to end opportunity to get in and figure this out.

I did this for about five years and then went to SC Johnson, where I had the opportunity to create the strategy for SC Johnson for eCommerce and build out the team and some of those core capabilities that you really need to have to get an eCommerce business going.

Spent the first year focused against North America and getting our business online in North America with the big boys like Amazon and FreshDirect and Soap.com and all those folks, Walmart. Then the second year spent a lot of time internationally. A big chunk of SC Johnson's business is global, so I spent some time in the UK and Latin America and Asia, working with those various markets, again developing our strategies and putting the capabilities in place and putting our teams in place to win with our retailers in those markets.

Then a year ago I was asked to come to Tyson. Had the opportunity to come here to really build eCommerce in grocery for a very large company at a time when grocery is really starting to take off in eCommerce. So, for me it was a very exciting opportunity to take the things I learned at Procter & Gamble and SC Johnson and bring them here to Tyson at a time, again, when it was a large company and had the opportunity to impact how grocery comes to life online and take those learnings that I had and translate them here.

**Keith Anderson:**

Got it. So, it sounds like at least a few of these companies you were there just as they were either deciding to pursue eCommerce or were being asked or even pressured by some of their retail partners to do it. What was that beginning of the journey like, everything from getting executive buy-in and support to figuring out what strategies and capabilities and team you really need to position to win?

**Tim Madigan:**

Yeah, it's funny just by the way you kind of laid it out. You've been to that show a few times and can understand those key issues that you run into. I'll tell you, at P&G it was the very, very early innings of consumable online. Diapers went first, and P&G obviously with Pampers is a very large player in this space. Even as that business was accelerating online and we could see it and taste that business moving, the other businesses were frankly slower to respond, even in the same company.

There was a lot of time fighting for that buy-in, really trying to kind of capture the imagination of our executives around what this thing was going to be and that as trite as it may sound it's not going to be a fad. This is going to be something that we're going to have to sort of adapt to. It's not how you've run your career the last 25 years, Mr. Executive, but this is becoming a new reality and we're going to have to learn how to adapt to that.

That was really I would say the early on struggle at P&G. The good news is by the time I went to SC Johnson I think there was a pretty broad recognition that this was happening. The bigger question was how. So that was much more thinking through the wiring that we would need to put together internally, and that's everything from data, figuring out how do we get our data out of our systems and onto our retailer sites, figuring out supply chains so there's clearly pack configuration that has to get figured out, and a new type of analytics that has to be able to happen and insights that are required. So, it's getting those things created and in place so that you're able to succeed and show up as a leader for your categories in these new spaces and online.

Very similar at Tyson. Again, while it's still new, there's enough now precedence seeing this happen in other categories that there's a recognition that it's coming, but again the bigger question is what do I need to do differently now and how do I think about this, because it is so different than how we've gone to market? We recognize that we've got to do something. The question is what and how fast?

**Keith Anderson:**

Yeah. I think you and I met when you were at P&G and I think it was relatively early innings. So much of what I was doing at the time was trying to persuade the industry it's not a question of if, it's a question of how fast this is going to happen. People in roles like yours in those days would tell me they were spending half or more of their time internally persuading executives and trying to get organizational alignment, basically removing internal roadblocks to doing something.

But to paraphrase what you said, at some point the industry transitioned from is it going to happen to yeah, it's happening, what do we do? I think that's been a pretty exciting transition, because suddenly people stopped wringing their hands and funding studies to argue that it wasn't going to happen to them and started getting down to all right, how can we happen to it and actually influence what ends up happening in the industry?

**Tim Madigan:** Yeah. Absolutely. Again, I think that's exactly the position that Tyson took a year ago as grocery was just starting ... They recognized it's still an opportunity for us to come in and be a leader, so let's make that investment. It's a great environment to walk into, where you have that buy-in and that support and it's just now figuring out okay, how are we going to go do this?

**Keith Anderson:** I just heard you say, "When grocery was just starting," and I'm curious to get your views on ... To use the baseball analogy, what inning we're in with online grocery? You've got companies like Peapod that have been operating continuously for decades, but then of course you've got Amazon expanding Fresh and acquiring Whole Foods and Walmart and Kroger committing pretty seriously with their click and collect models, players like Instacart and Shipt enabling online grocery for other retailers, even Boxed just this week announced they're doing fresh delivery, has Jet, in limited markets. There's no question to me that awareness and availability of online grocery is expanding exponentially. Where do you think it really is in terms of adoption and how high do you think it can go over the next five years or so?

**Tim Madigan:** Yeah, I mean to carry on the analogy, I think we just came to the end of a very, very long first inning. To your point, some of these businesses have been around a long time. I mean Webvan 20 years ago was trying to figure this space out. My perspective comes from when I was at P&G there was this huge boost in diapers, where it felt like over the course of just three to four years it went from not even a blip to a top five retailers online for P&G.

As I see that, I feel like we are at that it's a blip space for online grocery because this last year you could really start to measure the impact and see the growth quarter, on quarter, on quarter, month on month, and they were meaningful gains, where you were seeing between the penetration in a market and then the number of markets that were being lit up by the different retailers just exponentially growing the business.

**Keith Anderson:** You use that word exponential, which I think sometimes people either use without appreciating what it means or just think of it as a buzzword, but to your point, you saw first hand at P&G how quickly this went from something that people were sort of monitoring at the periphery to something that was a top five customer. We've seen that trajectory in so many categories, but when you compare to the growth model in brick and mortar, where the life cycle of a store format used to be 20 years and you had to select your store locations five years or more into the future and you're reporting out to the market every year how many stores you're going to open and relocate and close, and everybody can really easily analyze what that trajectory looks like based on store productivity and everything else.

But eCommerce has been a fundamentally different trajectory. I think it's been clear both for retailers, but especially for suppliers, those that were on the sidelines, especially as the growth started to accelerate, really were caught off

guard and they lost a lot of their strength and their position that they had taken for granted in brick and mortar as shoppers started shopping in a new way, and they just weren't prepared or were positioned to meet shoppers where they were.

**Tim Madigan:** Yeah. I mean you've heard the 1/5/10. It takes a long time to get to 1% penetration online, but once you're there within four or five years you're at 5% penetration, and then very quickly thereafter you get to 10. We've seen that play out in multiple categories over time. The issue is that's not incremental. That is a shift of business from one model, stores, to a different, which is online. While 1 and 2 and 3% don't at first seem like a lot, when you're shifting out of kind of a very steady state type of environment, like you said, new stores and very almost kind of predictable type of growth, when you start to see those shifts happen and the speed that that means that you're going from zero to 5%, that is all really radically changing these models that we've built our companies around.

**Keith Anderson:** Yeah. And you and I on several occasions in the past have thought through how you deal with that balance between channel shift and incrementality. And as you've heard me say ... In fact, somebody just today was discussing the same topic. You have to brace for the possibility that it won't all be incremental, and in fact it may not be incremental at all, but it's not an optimal choice to sit on the sidelines in defense of what you have or used to have if shoppers and competitors are meeting online. Have you found as time has gone on the industry is more forward looking in that sense?

**Tim Madigan:** Yeah. The way I talk about it is incrementality is going to go to the leaders, so those retailers who move first are going to gain share because they're taking it from the retailers who aren't offering some level of the online convenience service. The manufacturers who go figure out how to win with those leaders are the ones that are going to be ... That get disproportionate shares as business shifts online.

While I said there was no incrementality, there's no incrementality probably at a ... Let's call it a category level or at a macro level, but retailers and manufacturers can absolutely use this as an opportunity to shift share. I mean that's what we saw happen with diapers. There's a pretty standard case study now that showed how Pampers went first, went big on eCom, and they shifted the total category share leadership position and took it from Huggies, just given their lean in online. As the model online, the business online took off, they got the advantages of that and ended up, again, shifting the entire share picture for the category.

**Keith Anderson:** Yeah. You get in early, you learn by doing, and at least at Amazon and a handful of other online models there's the flywheel effect that tends to reward success with more success. Although in contrast, I think a lot of the brick and mortar retailers that are investing more and more online, and especially the full basket players that carry temperature sensitive product and deliver locally ... They have, in my experience, more openness to collaborating with suppliers in areas like

assortment and pricing and promotion, but even on some of the bigger questions about what's the right business model and how do we position ourselves to be economically sustainable.

You said something earlier that sparks this thought around retail/supplier collaboration. It sounds like part of what you're charged with doing now is not just being reactive to what the retailers want, although that's clearly part of it, but almost, if I heard you, taking a leadership role in the industry in helping define with the retailers what the future might look like.

What would you tell us about how collaborating with retailers is similar or different in the context of eCommerce or online grocery versus what you were doing in some of your earlier career in brick and mortar?

**Tim Madigan:**

I think category management, category leadership isn't a new concept. It's one that for a long time manufacturers who wanted to show up as leaders and really partner with retailers could bring in some assets to the retailer, whether that was category insights or analytics or help with modular assortment decisions. They were able to bring stuff to the retailer that was valuable to them and in exchange for that value helped to shape the way the retailer thought about the category.

That principle or that concept totally is translating online. I think we're back at the very early stages of store category management opportunity now, where retailers are really starting to try to dig into understanding the drivers of their online business. We're talking about how significant that business has started to become for the Walmarts and Kroegers and Meijers and all of the other retailers that are moving from just a strict store model to a store and/or online model.

So they're yearning now for those same types of insights and analytics and frankly test and learn opportunities where a partner is willing to lean in and maybe even invest a little bit ahead of the business that they're seeing online, but in the spirit of collaboratively understanding what this thing is going to be, how consumers are constantly kind of changing or evolving their behavior now towards this online, and doing that together and in a spirit of test and learn they're both learning and optimizing towards this new platform.

**Keith Anderson:**

Yeah. I've always said the best case scenario when you do that kind of collaborative experimentation ... The best case scenario is you actually influence their future direction, but at a minimum it gives you early exposure to how they're thinking and what they're considering doing. As time goes on, you'll build relationships in parts of the retailer's organization that you otherwise would never have connected with and you'll get visibility into where they're headed in ways that may not yield monthly or quarterly game changing results, but over the span of years can have a huge impact.

**Tim Madigan:** Totally. Your point around integrating with other parts of the organization, I think retailers are frankly pretty far ahead now of manufacturers in certain capabilities, and so manufacturers ... We've got to start building certain muscle around big data analytics and understanding how search algorithms work and optimizing towards those, even frankly digital media and what works and doesn't work there, how to better measure and leverage that.

I think retailers have been out ahead of manufacturers in creating that and historically a manufacturer would like to show up to a retailer and say, "Hey you got a logistics guy. Talk to our logistics guy. We got a finance guy and you got a finance guy." So really kind of that multifunctional collaboration. But right now, the retailers are creating these capabilities where we don't have an equivalent, a corresponding function yet. We're starting to get a sense of that, starting to be able to build some muscle early on through some of these interactions where we can begin to develop those capabilities.

**Keith Anderson:** Yeah. We actually just did a big study looking at how something like the top 115 food and CPG companies globally are structured for eCommerce. It was evident that in the categories that are relatively mature, so take something like pet food just as an example, the head count that's dedicated to eCommerce in a lot of disciplines or traditional functions like supply chain or marketing, it's going up. That is, they've got full time people for supply chain, as an example, that are focused either on things like developing optimal packaging and pack configurations for the channel or dealing with some of the supply chain challenges you mentioned earlier, smaller order quantities and just in time replenishment and all that stuff.

There are even new functions that we discovered. Digital Merchandiser is one example, or Continental, as their search specialist, and they touch on a lot of these areas that you're mentioning. But even at companies that aren't quite to that level of maturity, we're finding people that are at least designated as responsible for some of those things. It may not be their day job or their full-time responsibility, but as a start it's one of the things that they're metriced against doing. It's just really interesting to see how the capacity and the capability is being added to catch up to what the retailers are already doing in a sense.

**Tim Madigan:** That's right. Absolutely. I would say there are lots of partners out there that are potentially looking to work with manufacturers, especially I think in some of the instances you mentioned, where there aren't a lot of resources available internally yet that can be dedicated against the opportunity just given the size of the company or the opportunity today, but these guys can potentially act as bolt-ons to help support the company in your earliest phases.

**Keith Anderson:** Yeah. Yeah. One of the areas that I suppose is a little bit adjacent, but it's increasingly part of the online grocery ecosystem, is the meal kit phenomenon. There have been high profile IPOs in that space over the last year or two. That's all I'll say about that. But Tyson has a play in that space too with Tastemakers. I

don't want to steal your thunder, but that service is available for home delivery via a handful of online grocers. How are you and how is Tyson thinking about the meal kit space and what role do you think it will play either as a standalone service or integrated with some of these full basket grocery models?

**Tim Madigan:** Sure. Let me ask you, have you ever done one of these kits?

**Keith Anderson:** I have. In fact I did one of the Tyson ones, the Amazon Fresh.

**Tim Madigan:** There you go. What did you think?

**Keith Anderson:** It was great. Listen, that's close to cooking as I get. I'll be transparent as I can be. I felt like a five star chef.

**Tim Madigan:** Yeah. You know it's funny, because I did one similarly. It wasn't a Tastemakers. I wanted to just understand some of the experiences that some of our competitors are offering. You get the whole vegetable and the ... You know, you get all the different elements, little bottles of vinegar. You slice and dice, it just takes a long time. I tell you though, I got tons of kudos on them because it tasted great and they appreciated the hour or so of prep that I put into it.

**Keith Anderson:** Did they know that you were using a kit?

**Tim Madigan:** Well, yes, because as much effort as I was willing to put in, I wasn't going to figure out what the ingredients were going to have to be. I'll say from that standpoint it's super convenient, but the effort that it took for me to actually do all the cutting and dicing and measuring and all that even still ... Despite the kudos, I wouldn't do it again. That's really where the opportunity with Tastemakers came in, was that it's pretty straightforward. It's all pre-diced, pre-measured, and so you really just have to kind of cook it, so it really adds another level of convenience.

That was the difference that Tyson really wanted to add. The other big difference though was how we went to market, where Blue Apron and others are a direct to consumer play, where their companies stand alone and they ship it to your door. We work through retailers. Tyson is really proud of there retailer relationships. Those are critical to us, and so we wanted to create a proposition that we could use with and through retailers.

You mentioned Amazon. They were one of our early partners, but we're now in several other online retailers and we've got a proposition down in the Texas market where we're doing a version of those kits in store.

**Keith Anderson:** Yeah, I saw that. I would imagine for the same reasons that ... Nobody shops exclusive online or offline, especially in grocery. I think there's probably a strong case to offer something like this in both environments.

**Tim Madigan:** Absolutely. I mean at the end of the day it's a convenience play. Consumers are looking for solutions, and so to you point whether you want it online, and again there's a real convenience mindset when you're ordering your groceries online and it's a nice fit there, but you're also in store looking for solutions. There's lots of different meal kits, different versions or iterations of that that you'll see in stores.

**Keith Anderson:** Yeah. While we're talking about this meal kit thing, one of the questions I've got for you is you've got a lot of experience in sort of shelf stable CPG where some of the historical challenges have been about the economics of retailing items online that may only cost \$6 and also cost \$6 for shipping. I would imagine transitioning to a similar role, but for a perishable company, there are naturally some challenges establishing trust in the freshness and the quality on the demand side of things and the whole sort of temperature sensitive cold change is a challenge on the supply chain side, but what have you found is the same or different about leading digital commerce for a company that sells perishables versus shelf stable CPG?

**Tim Madigan:** Yeah, I mean you talked about the cost implications. We had to create when I was at SC Johnson, and then P&G also had to create unique types of packs. It's a whole different ... It's called range of assortment, that would be valuable as you one, hit the economics that you need to hit in order to ship through the mail. You couldn't do a bottle of Windex, a \$2.50 bottle of Windex. You had to put it in a case.

But from a consumer standpoint, you got a case of Windex, I mean that's like a lifetime supply of Windex. You don't need that much at any given time. So the benefit for us on the grocery side is that we're able to use the store assortment. This company has been built on really deep consumer insights and understanding how consumers want to use our products and how they should be packaged. The benefit is that's exactly the same product that they're able to get through online, and whether it's put into some bags and delivered to your trunk in a click and collect type of a model or put in a van and delivered to your house, it's still the same product that we have optimized for a consumer that's been sold in store for years.

From an assortment standpoint, the grocery game is actually a lot easier, a lot more straightforward. What we are seeing is there's some different behaviors. We kind of talked about this idea of eCommerce grocery early on being really big on a convenience play and there are certain types of consumers out there who convenience is a real premium for them. Time is very, very valuable and so they're willing to pay the \$15 a month subscription fee or whatever, the \$5 per occasion fee that it is because they value their time.

This type of consumer also tends to be busy and higher end, meaning they're willing to buy more premium stuff. So, we tend to see the balance in the basket be towards larger sizes and be towards kind of more premium, but it's more I

think at this point due to the fact which type of shopper is using this service versus I think any kind of forced behavior. I think what we're going to see play out long term is I think this trend toward more mass adoption. We'll see it really balance out to be very similar to what you see in store to online.

**Keith Anderson:** Is there anything unique or different about how you attract and engage and convert shoppers? You mentioned content and winning search and some of those things. Does anything over or under index in the perishable world as compared to standard CPG?

**Tim Madigan:** Yeah. I mean obviously from our traditional store base it's completely ... I mean you created all these store fundamentals and you've got to translate that to online. But from a center of store eCommerce to now it's called grocery eCommerce, it's a different environment. When I was at SC Johnson, you saw for the through the mail parcels shipped ... It's called Amazon.com or Walmart.com model, you've kind of got it covered. It's a single ... We used to call it spearfishing experience, where you go in and you buy the one thing and your whole funnel, your digital marketing, your content, your search ... All of that was geared towards getting that consumer to get to that one thing they were looking for.

Then the question is okay, how do we kind of build onto that basket with the retailer, but ultimately it was a single product purchase experience. Grocery is a basket experience, and so fundamentally the site is set up differently, the fundamentals work a little bit differently. You were trying different things around merchandising and solution creation, but at the end of the day the tactics are definitely different than we were back in the center of the store type model.

**Keith Anderson:** Yeah, that makes a ton of sense. Well, Tim, this has been really interesting. Thank you for joining us. If people want to connect with you, how can they get in touch?

**Tim Madigan:** They can reach me on my LinkedIn profile, Timothy Madigan.

**Keith Anderson:** Perfect. Well, Tim, thanks again for joining us. Always good to speak with you.

**Tim Madigan:** Thanks Keith. Enjoyed it.