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# THE FOUR BIGGEST CHALLENGES FOR NEW CPOs

## A GUIDE TO SUCCESS IN YOUR FIRST 100 DAYS

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INSIGHT  
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# Introduction

Congratulations on the new job. Whether you are a seasoned procurement veteran taking on a new challenge or a talented executive from another discipline tasked with tackling procurement for the first time, one thing is for certain: your new role carries both opportunities and risks.

After 15+ years of working with over 1,000 CPOs, Insight Sourcing Group has had the benefit of observing a myriad of strategies employed across companies and industries. We have seen CPOs achieve tremendous influence within their organizations, and we've seen CPOs run into brick walls and stumble.

In this paper, you'll learn how to avoid common mistakes and set a course for tremendous organizational impact in your first 100 days.

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## The 4 Biggest Challenges for New CPOs

In our experience, these are the biggest challenges new CPOs will face.

### The Odds Are Good that Your Procurement Data Will Be Bad

Despite big investments in Enterprise Resource Planning (ERP) and Procure-to-Pay (P2P) technology, the vast majority of companies Insight Sourcing Group has supported over the last decade struggle with spend visibility. As a new CPO, you are unlikely to be handed sourcing-caliber data the day you walk in the door, making it almost impossible for you to create a world-class procurement organization. It is particularly tough to develop a sourcing and procurement organizational strategy without good data.

There are a lot of drivers for this problem, but a few of them include:

- Data scattered across multiple Accounts Payable & expense systems
- Past acquisitions are not fully or properly integrated from a data perspective
- Accounting-oriented data do not align with the way the supply market is organized (a procurement taxonomy)
- Maverick and unmanaged spend is not captured in P2P systems
- Poor data input discipline results in inconsistent and often inaccurate coding, which causes multiple vendor master entries for the same vendor and vendors that are grossly miscategorized



These problems create a risk that your initial meetings with stakeholders and executives will be sidetracked by discussions about data inaccuracies, rather than discussing how to drive value for the organization. First impressions matter, particularly when you are meeting with reluctant—and possibly privately resistant—stakeholders and category owners. If you are going to put yourself on a semi-hostile firing line, you need to have confidence in your data and be able to defend it in the face of the stakeholders you hope to win over.

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One common mistake we see CPOs make is that they immediately focus on fixing the “data supply chain.” They often lobby for a new P2P platform or they attempt to modify user behavior to ensure that systems generate usable data. This is a mistake for four reasons:

- Focusing on low-level buying processes, proper coding, forms, and the like positions a CPO as tactical. The last thing you want to do at the start of your new role is to play “small ball” or be known as the “procurement cop.”
- For most, efforts to fix the problem are not successful. We seldom see CPOs gain the necessary data from internal systems without significant rework, regardless of how much time, money, and relationship equity is invested. As a data point, we have worked with over 1,000 companies, and most of them had already made significant investments into P2P and ERP systems. And we have yet to meet one who was able to hand us sourcing-caliber data. No matter the investment, the data will always require significant rework to be useful.
- Imagine the best-case scenario: Your P2P implementation is relatively fast and flawless, your data entry team has the data discipline of a German engineer, and you are able to corral 100 percent of your spend, and still it will take you at least six months to implement and another year to get a year’s worth of data into the system. So, in the best case, it takes 18 months to get perfect data, and candidly, based on our observations in the marketplace, we would call that miraculous. Most organizations that hire a new CPO are already impatient to see savings.
- Typically, P2P efforts are expensive. What would you rather do? Ask for money before you have proven anything? Or ask for money after you have driven extraordinary valuation improvement for your company and a tremendous return on the cost of your organization?

Fixing P2P systems can drive value and eliminate pain, however, from our perspective, making this fix an early priority is not recommended. There are much easier ways to get the data you need to develop and execute your strategy.



## The Tyranny of the Tactical

Most new CPOs are handed a significant cost savings target, inherit a team with unknown capability—along with a pre-existing reputation—and take ownership of a series of in-flight projects.

They face critical questions such as:

- Where should I focus to take out cost quickly?
- What are the best short-term and long-term sourcing targets?
- How do I best deploy my finite resources?
- Do I have the right team?
- How should they be organized?
- What should my future team look like?
- How do my people, processes, and technology compare to best in class?
- Where are the minefields and sacred cows in this company?
- How do I expand procurement's influence over time without damaging relationships?

The general “fog of war” common in any new role, compounded by poor data, makes it difficult to create a comprehensive game plan. That initial delay can cause other stakeholders' priorities to rush in and fill the void. New CPOs are often brought in as part of a broader strategy to centralize procurement and therefore have the benefit of well-communicated executive support. However, this can be a double-edged sword as it can drive a large volume of activity.

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Stakeholders feel compelled to ask for your help reviewing every contract and to make a series of “highly specified buys” as they navigate the new normal—“I need to buy these services or items from this particular vendor” and “I have already negotiated a price, but see if you can do better.” Some of these requests may sound familiar to procurement veterans.

Many new CPOs quickly become overwhelmed, and their priorities are swept away as they struggle to respond to organizational requests while trying to drive a few early wins. The risk is that they expend their finite resources on low ROI efforts while missing overall savings targets. They are incredibly busy but get very little credit for their work and have few early marquee successes to tout.

We call this phenomenon the “Tyranny of the Tactical.” Instead of elevating and expanding influence into areas where procurement can drive the most value, new CPOs inadvertently position themselves as tactical. They are too busy chasing other people's priorities to effectively address real opportunities for high return on investment efforts.



## The “Big Set-Up”

Many new CPOs are walking in the footsteps of someone who made a lot of missteps. In one typical scenario, the previous procurement person was highly tactical, focused on “beating up vendors,” and usually did not focus on relationship development externally or internally. In other cases, procurement was highly decentralized and a new CPO is the first leader in a center-led organization.

In the first scenario, as the new CPO, you may face a lot of resistance from stakeholders who did not like your predecessor and perhaps cling to bad memories of low-cost, poor-performance suppliers that were “forced down their throats” in the past. In the second case, you will likely face a lot of resistance from departments that were used to doing things their own way—without oversight (or support) from a central purchasing group. In either case, beware.

Watch out for the “Big Set-Up.” This is what happens when a new CPO is brought in by a CFO or CEO who has bought into the strategic impact of procurement. C-suite execs get it (at a high level)—they understand that the opportunity is substantial, and you are awarded the fabled “Executive Mandate.”

CPOs who interpret this as an actual mandate often rush headlong into disaster. Organizational resistance can be fierce, but in the face of a “mandate” it often goes underground and shows up as passive-aggressive behavior. Co-workers may smile to your face and then criticize your sourcing process behind your back. They amplify the risk of changing vendors—“it could sink the company!”—challenge your competency in their area of competency, and generally undermine or marginalize your efforts.

It can lead to a “death by a thousand cuts.” CEOs and CFOs generally do not appreciate how complex procurement can be and are reluctant to disregard the concerns of trusted lieutenants. What seemed like a great idea in the beginning suddenly gets messy, and then executive support can waiver. If the company faces a bad quarter, pressure intensifies, and, as we have seen, many outstanding CPOs get pushed out as scapegoats in the storms that follow.

## The Dreaded “Where Are the Savings in the P&L?” Question

In 2017, Insight Sourcing Group did an analysis of every procurement conference in the world. We categorized all of the speaking topics in an effort to understand what CPOs were thinking about, or at least what the conference organizers assumed they wanted to talk about. The number one topic was “Justifying the Value of Procurement.”

Our interpretation of this is that although many CEOs and CFOs have bought into procurement, resulting in an expansion of procurement investment globally, they are now starting to question what they are getting for their investment. We often meet with these CEOs and CFOs who express frustration with procurement organizations that tout huge wins but the executives do not “see the savings in the P&L.”



This is a topic in and of itself worthy of a long white paper. The short version is that sometimes the issue is that savings are not removed from budgets and are simply spent elsewhere. However, in many cases, organizations are only achieving 50-60 percent of their projected savings because their internal employees are using the wrong suppliers (called “maverick spending”), the suppliers are not honoring the terms of the agreement, or they are suffering from another source of savings leakage.

Therefore, we recommend that new CPOs lay the groundwork for robust savings tracking and category management from the day they launch their first strategic sourcing project. We have developed a concept called “Source to Manage.” In short, this means that sourcing professionals should leverage the power of the sourcing process to require your vendors to provide the data you will need to manage the category efficiently but at a world-class level. This will allow you to manage compliance, realize the full savings, capture “second bite of the apple” savings through demand management, and more important, prove savings in an inarguable manner. This is much easier to structure in the midst of the competitive heat of a sourcing process and harder to do after the fact. Not surprisingly, vendors are reluctant to give you the data you need to fully manage them without this pressure.

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**The concept of “Source-to-Manage” allows CPOs to fully capture not only the projected savings but also “second bite of the apple” savings.**

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CPOs who leverage strong spend visibility software can easily address noncompliance or maverick spending issues, which can recover 40 percent of savings often lost to this scourge. Advanced CPOs who deploy simple category management software or services can also halt the vendor gamesmanship and erroneous pricing that often leads to another 15 percent in savings leakage. However, it is critical to “begin with the end in mind” as **7 Habits** author Stephen Covey recommends.

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## **How to Win in the First 100 Days**

It is vital that you seize the initiative and create your own game plan. It must be data-driven and defensible, as you will need to sell it internally. Many of your executives and stakeholders mean well, but you need to have a clear set of priorities with ROI estimates that will allow you to credibly say “no” to things that will drag you, and your potential for impact, down. You need to leverage your short “honeymoon period” and what limited relationship equity you have to advance the critical elements of your own plan.

Here are the keys to making it happen.



## Gain Spend Visibility...Fast

The number one thing you absolutely must do is gain visibility of your spend—whatever it takes. Do not try to fix the systems along the way. Gather the data in whatever format it is in, clean it up by any means necessary, and gain visibility quickly. Gaining spend visibility, even at a high level, provides several key value drivers:

- You have a map of the entire organizational spend across divisions and regions. You have thrown a net around the “universe” and have a framework to use in the development of your strategy. For example, you can quickly see which categories are big enough to help you meet your goals or which categories have high vendor fragmentation and might be good candidates for strategic sourcing. Even better, if you can map stakeholders to spend areas, you can quickly see where your limited relationship capital should be invested.
- In a data desert, data-driven insights are like water. You can use the data in your meetings with stakeholders as part of your “currency” for relationship development. By showing them compelling insights, you bring something unique to the table that spurs conversations and positions you as an interesting potential partner.

## Understand Where You Stand and Build a Plan - Part I

Most new CPOs are hired to take out costs, so start with a cost optimization plan. Here are a few questions you should try to answer quickly.

- What is procurement’s current influence?
- Which categories does procurement currently **OWN** (i.e. lead the sourcing process and select the suppliers), and which ones do you **INFLUENCE** (i.e. lead the sourcing process and stakeholders select suppliers)?
- What should you own and influence, and where are the gaps?
- What spend areas are currently “under management,” and which ones appear to be out of control? Are they really out of control or is there an underlying strategy that explains the data?
- For the areas that are supposedly “under management,” how well managed are they? What is the “compliance rate,” meaning what percent of the spend in a category is going to the preferred suppliers that presumably have the best terms and pricing?
- Why has procurement not been engaged in the past, for example, in marketing or IT?
- Where are the best cost-savings opportunities, and how do they map to procurement’s current areas of influence? How do those opportunities map to your goals?





This assessment helps you quickly determine what the key areas of opportunity are. You can leverage the spend analysis as a framework to quickly document:

- Spend areas of current influence and simple metrics such as Total Addressable Spend and Percent of Spend Under Management
- Categories you would like to influence in the future (or need to influence if you are ever to hit your goals)
- Opportunities across all areas for Strategic Sourcing and Compliance Management

The strategy is simple and intuitive: invest your resources in areas most likely to create headline-producing quick wins and then expand to more complex areas. At the same time, begin to invest in internal relationships with a long-term view toward expanding influence in targeted areas. Lay the groundwork for these future wins by sharing data-driven insights and ideas with reluctant stakeholders while building your reputation in other areas.

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And if you are really on your game, you will build your processes and relationships with your vendors to enable you to ensure 100 percent savings realization by implementing a “Source to Manage” strategy, tracking and resolving maverick spend, and ensuring suppliers fulfill their commitments. In addition, collaborate with finance to determine the best way to validate savings internally and customize your approach in that way. In doing so, you will avoid otherwise inevitable challenges to your savings figures.

### **Understand Where You Stand and Build a Plan - Part II**

During, or shortly after Part I, performing your own organizational cost-focused assessment, you need to get a handle on your people, processes, and technology. What exactly have you inherited? As you build a plan to make dramatic impact on your organization’s bottom line, do you have the team and tools to deliver?

Assess your current situation and develop answers to additional questions such as these:

- Compared to a world-class procurement organization, where do we stand relative to best practices in the major competency areas? Where are the gaps that matter?
- Given that I now have visibility across my spend and am creating a cost optimization plan, how should I deploy my finite resources?
- Do I have the right resources with the right skills and areas of expertise?





- Given the vision of what I hope to do and why I was brought in, what should my team look like in the future? How big should it be? How should it be organized?
- Where do I stand relative to critical procurement-related processes? Where are the sources of pain and opportunity? Do I even want to own tactical processes?
- What tools have I inherited? Are they being fully utilized? Are they the right tools to close the relevant gaps?

A side benefit of this assessment is that you can develop baseline benchmarks that will be helpful as you seek to demonstrate progress over time to your leadership team and within your own team. All of this information will be valuable as you seek to transform your procurement organization into a self-funding, ROI-generating strategic asset that your leadership team hired you to create.

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## Our Recommended Approach

If you were to work with Insight Sourcing Group, this would be the approach we recommend:

### **Spend Analysis**

Insight Sourcing Group has performed over \$1.5 trillion in spend analytics and can take data in various raw forms from chaos to clarity in a few weeks. It is difficult to overestimate the value of spend visibility as you simply cannot execute with confidence without it, and are at risk of losing your credibility if you do not have good data. Once the spend analysis is done, we can load the data into SpendHQ®—our proprietary, award-winning spend visibility platform—to extend the insights to your full team.

### **Sourcing Opportunity Road Map**

Either through a two-day workshop or a two-week to five-week on-site assessment, we can quickly leverage our expertise with over 4,000 projects and massive benchmark database to help you navigate unmanaged spend, in-place contracts, and difficult stakeholders. Our goal is to position you for low-risk, high-savings quick wins with a plan for longer-term sourcing and influence strategies.

### **Procurement Assessment and Transformation Workshop**

Insight Sourcing Group begins by launching a rapid, hard-hitting assessment of your company's current procurement state. We leverage a "People/Organization-Process-Technology" framework to assess current practices and capabilities against best practices developed from working with hundreds of market-leading procurement organizations in diverse industries. Based on each client's goals, we develop a gap analysis and action plan to elevate the procurement function.



How fast can we move? We recently completed an entire procurement assessment for a multi-billion dollar company in just five weeks. Once you have your road map, if you need a SWAT team to help with sourcing projects or to build out your new organization, you will have a relationship with one of the largest independent sourcing and procurement firms in North America.

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## Conclusion

Taking on a new CPO role is an exciting challenge. We are confident that by following our tips to focus on what really matters in the short term, laying the analytic groundwork for your future vision, building lasting relationships with key stakeholders, all while scoring those early wins, you'll earn the trust of your leadership team and be well on your way to turning your procurement department into the strategic asset every organization needs.

If you're intrigued and would like to learn more about how we can help, give us a call.



## About Insight Sourcing Group

Insight Sourcing Group is the leading boutique consulting firm in North America focused exclusively on Strategic Sourcing and procurement-related services. The firm has developed a reputation for the collegiality and high caliber of our team, our tremendous focus on client results, our entrepreneurial and innovative approach to the space, and for our ability to consistently deliver strong outcomes.

Founded in 2002, the firm works with senior executives and procurement leaders to accelerate Strategic Sourcing savings, increase Spend Visibility, provide category intelligence, and implement procurement best practices. Insight Sourcing Group has worked with hundreds of corporate clients of all sizes and over 50 Private Equity firms.

Typical client results include 20% average savings per indirect spend category, 5 – 15% for direct spend categories, 400 – 600% first-year return on investment, and project payback periods measured in months.

To learn more, visit [www.insightsourcing.com](http://www.insightsourcing.com).

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## About the Author



**Tom Beaty** is the founder and CEO of Insight Sourcing Group. He has over 20 years of strategic sourcing and management experience. Prior to founding the firm, Tom worked with Deloitte Consulting and ICG Commerce (later renamed Procurian and acquired by Accenture in 2013).

Early in his career, Tom led the turnaround of a 120-employee construction company, converting substantial losses to profitability in under a year, primarily through cost optimization. This experience contributes heavily to his focus on delivering measurable results and high ROIs for clients.



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