

Operations Practice

Your first 100 days as CPO

Disruptive events, geopolitical risks, and cost pressures mean that a new chief procurement officer needs to hit the ground running. Here's how to do it.

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There's nothing like a crisis to expose weaknesses in an organization's value chain. The global pandemic may have been the biggest crisis to strike the global economy for decades, but it comes hot on the heels of a host of other disruptive events, from Brexit to trade tensions and a general rise in economic uncertainty.

These events have affected organizations in multiple ways. The fall in air travel early in the pandemic, for example, hit many supply chains: more than half of all air-freight shipments travel as belly cargo in passenger aircraft. Research by the OECD suggests that the economic fallout from the crisis could push one in ten small and medium-size companies into bankruptcy, with knock-on disruption for thousands of supply chains. The desire to control risks is driving some companies to pivot from "just-in-time" to "just-in-case" supply-chain models, with higher inventories and supply bases located closer to the point of manufacture or final consumption.

The procurement organization works at the front line of the battle to mitigate these risks and disruptions. Decisions about what to source externally, and where and how to buy those inputs, can have a decisive impact on the balance of a company's costs, risks, and sources of competitive advantage. The procurement organization's agility and flexibility in response to supply shocks and demand shifts can make the difference between commercial success and failure in volatile environments.

As the leader of the function, it is the CPO who defines the strategy and culture of the procurement organization. And if today's CPOs have more to do than their predecessors, they also have less time in which to do it. The average tenure of C-level executives has been falling for decades, and a CPO appointed today might anticipate spending only four to six years in the job. The first few weeks in a new role can determine its trajectory.

Where should incoming CPOs focus their attention? This year, we conducted in-depth interviews with 20 CPOs from a wide range of industries and geographies. We asked them about the strategic objectives of their businesses, the health and effectiveness of the procurement functions they

inherited, and the actions they took to set the organization on a path to improvement. We also quizzed our interviewees about what they learned during the first weeks and months in their role, and about what they would do differently with the benefit of hindsight.

In this article, we distill the shared wisdom of our interviewees to outline the critical considerations and decisions every CPO can make during their first 100 days to build a resilient function and deliver long-lasting impact to the organization.

Know your starting point

Every business is unique, but two dimensions largely determine a new CPO's approach. The first is the procurement organization's strategic focus, which needs to be aligned with the company's overall business goals. Is cost reduction the primary aim, or does procurement address other potential sources of value, such as risk reduction, improved sustainability, or access to scarce resources and innovative new technologies?

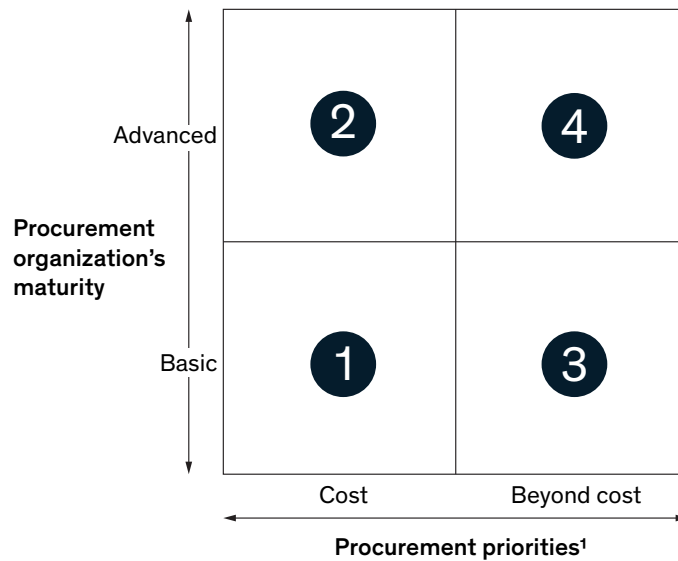
The second dimension is the maturity of the function. Some CPOs will take the helm of a sophisticated organization that already operates efficiently and effectively. Others may need to reboot a struggling function, or even build an entirely new one from scratch. The interaction between these two dimensions produces four archetypes that determine the broad challenges facing the incoming CPO and inform their priorities in the first 100 days and beyond (Exhibit 1).

Successful CPOs have three priorities for their first weeks in their role:

- Develop a baseline understanding of the organization's strengths, weaknesses, and value-creation opportunities
- Proactively engage with internal business stakeholders, external stakeholders, and partners to understand their needs and priorities

Exhibit 1

Four archetypes help to determine a new CPO's early priorities.



Priority areas

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|---|--|
| <p>1</p> <ul style="list-style-type: none"> • Respond to cost pressures • Deliver quick wins • Set bases to sustain impact • Develop foundational expertise | <p>3</p> <ul style="list-style-type: none"> • Identify basic procurement value proposition (eg, extra margin improvement, risk reduction, resource access) • Develop a change-management approach and culture • Upgrade procurement organization's skills |
| <p>2</p> <ul style="list-style-type: none"> • Identify additional sources of value creation • Map required expertise to create and capture such value • Redesign the organization to increase agility and respond faster to market movements • Create or refresh a digital roadmap for procurement | <p>4</p> <ul style="list-style-type: none"> • Identify and focus on additional procurement value proposition (eg, innovation, sustainability) • Develop specific expertise for topline contribution • Foster partnership (internally and externally) to drive innovation |

¹Including the larger organization's expectations from the procurement function
Source: McKinsey Procurement Operating Model Service Line

- Above all, focus on impact, making their mark on the organization and demonstrating its potential to add more value to the business as a whole

While these three priority areas are universal, the specific actions required within each will depend on the procurement function's organizational archetype. Although the workload involved in building and steering the procurement function will likely be

high, successful CPOs also ensure they keep some time and energy available to address their personal-growth objectives.

Understand the environment

Every new CPO can take specific actions to understand the basic value drivers and overall maturity of their organization. Time spent building

a detailed picture of the procurement environment in the early days can pay off handsomely over the long term. This information-gathering exercise should ideally focus on both quantitative and qualitative data, and look both inside and outside the organization.

For organizations with a cost focus, it is especially critical to develop a complete and credible spend cube. In less-mature procurement functions, this can take a considerable amount of time and effort that can easily be underestimated. Among the top data-gathering priorities is to collect information on key product and service categories, including the organization's spend per category and historical price movements. Mature organizations with a cost focus can invest in digital disruptors, such as machine learning and artificial intelligence, to automate the classification of transactional data and quickly identify opportunities to create immediate impact.

In procurement functions that focus on types of value beyond cost, the CPO's task is to find openings to support future value creation. Insight into the strategic priorities of the business and information on upcoming projects is essential, as is a comprehensive risk assessment of the supplier base. A good CPO will also think beyond the limits of the organization's current projects and its existing supply structures. That will require a perspective on the megatrends that are likely to shape the company's sector in the coming years, along with the implications for rethinking make-versus-buy decisions (particularly in outsourcing

or offshoring), and for altering value chains by engaging with new partners.

By talking to their own people, new CPOs can develop a better understanding of the way the function has operated in the past, assess the strengths and limitations of their team, and identify organizational and cultural barriers to higher performance. The CPO of a luxury brand told us that the need to fill capability gaps quickly was a major lesson learned. "I realized that people, mind-sets, and capabilities are more important than codifying clear processes. I will use this learning by focusing on capability assessment, the learning journey, and change management."

Engage stakeholders

Perhaps more than any other function, the success of procurement depends on effective collaboration with other stakeholders, both inside the organization and beyond it. For a new CPO, relationship building begins on day one, and forms the second plank of the 100-day plan.

This translates to spending as much time as possible in face-to-face conversation (in-person or virtual), both with internal customers across the business, and with the most important suppliers and external partners. The objectives of these stakeholder conversations are three-fold: to understand how people perceive the procurement organization today, to identify opportunities for procurement to add additional

“People, mind-sets, and capabilities are more important than codifying clear processes.”

—CPO, luxury brand

value in the relationship, and to start building toward a more effective collaboration model in the future.

Those objectives remain the same regardless of the maturity of the procurement function, but the content of conversations will differ. In a less-mature organization, the CPO will likely seek to demonstrate the art of the possible—identifying a small number of high-value opportunities with willing business units, then using those cases as “lighthouse” examples of effective collaboration. In a mature organization, by contrast, a new CPO can focus on the white spots and pain points in the procurement–business relationship, looking for ways to further streamline processes and create additional value.

The CPO of a financial-services company told us that conversations with stakeholders were the highest-impact action possible in taking on the role: “I learned a lot about the engagement model, how we work, the culture of the company, and how different functions work together. And these kinds of conversations were new for the stakeholders. They weren’t used to procurement saying, ‘tell me what I can do for you, tell me what you think.’”

That sentiment is echoed by others. “You need to understand how procurement is perceived by other functions,” says a consumer-products CPO. “Spend a significant amount of time understanding the expectations of your internal customers,” says the CPO of a bank. “Politics and soft power are of paramount importance for a function such as procurement that has to serve internal stakeholders.”

Conversations with key suppliers are just as important as those with internal stakeholders. Plan to make contact with the most strategically important suppliers as soon as possible after taking up the role. For cost-focused organizations, these are likely to be the suppliers accounting for the largest portion of the company’s spend. For procurement functions looking for value beyond cost, an incoming CPO may also want to include smaller suppliers offering critical technologies or with high innovation potential. Regardless of context, however, the objectives of the initial communication between CPO and supplier will be the same: to take the pulse of the current procurement-supplier relationship, to reinforce the importance of a strong partnership between the organizations, and to communicate the company’s new priorities.

Once they understand the needs of their stakeholders, CPOs can use those insights to develop an effective governance model for the procurement function. That can include mechanisms for procurement to establish joint priorities, strategies, and support processes. Procurement can make sure it is involved at an early stage in any product or service the business plans to develop. It can also clarify responsibilities and decision rights through the source-to-pay process by establishing which stakeholders are the natural owners of each step. And it can define the priorities and capabilities needed within the procurement organization.

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—CPO, financial-services company

Create impact

The overarching imperative for every CPO is to create value for their organization. Contrary to the common belief that the start of a new role is all about learning and strategy setting, CPOs have the ability—and, often, the expectation from the top team—to deliver significant impact during their first 100 days.

We believe that within this critical window, every new CPO can: create a minimum viable product (MVP) or proof of concept for the strategy they plan to adopt over the longer term, apply that strategy rapidly in real projects, and use it to capture real value for the organization.

Starting fast like this has multiple benefits. It allows CPOs to refine and battle-test their approach before rolling it out across the organization. It creates results that can demonstrate their ideas' potential, making it easier to achieve buy-in from the CEO and other senior stakeholders. It also helps to galvanize the procurement organization, building momentum and enthusiasm for further improvement. Finally, it provides an opportunity for CPOs to demonstrate their leadership skills and can-do mentality.

The opportunities for rapid value creation are highly dependent on the organization's starting point. In the case of a new or immature procurement organization, the application of basic procurement tools can capture a lot of value. The incoming CPO at one company introduced a tender process for several major categories, something the organization had never done before. Even in the pilot phase, the effort delivered significant savings.

Cost-focused procurement functions with a higher level of maturity can often achieve rapid results through the application of smart digital tools, such as modern spend-analytics systems. These methodologies help squeeze more value from the organization's existing data, and can often deliver results in just a few weeks. Some organizations have found it useful to establish a cross-functional

"spend control tower" tasked with achieving rapid cost reductions in critical categories.

One chemicals company, for example, introduced advanced digital sourcing tools to optimize approximately \$100 million in annual logistics spend. The company built cleansheet models to establish target logistics costs at the lane level, then conducted multiple rounds of request for proposals (RFPs) with potential suppliers, using a sourcing-optimizer tool to dynamically adjust the way lanes and shipments were bundled and allocated to potential suppliers. The initiative delivered savings of between 13 and 20 percent across the category.

Where the primary goal is value beyond cost, quick wins can be more elusive. The first priority in this situation is typically to engage the procurement function in a more strategic way with the wider business, such as by establishing cross-functional teams to pursue already-identified sources of value and spot new opportunities.

Several CPOs we interviewed emphasized the importance of sharing early successes: "overcommunicate on first achievements," was how one consumer-goods CPO put it. Advertising the impact achieved helps validate new procurement approaches in the eyes of internal and external stakeholders, and can shift mind-sets while building enthusiasm for further change.

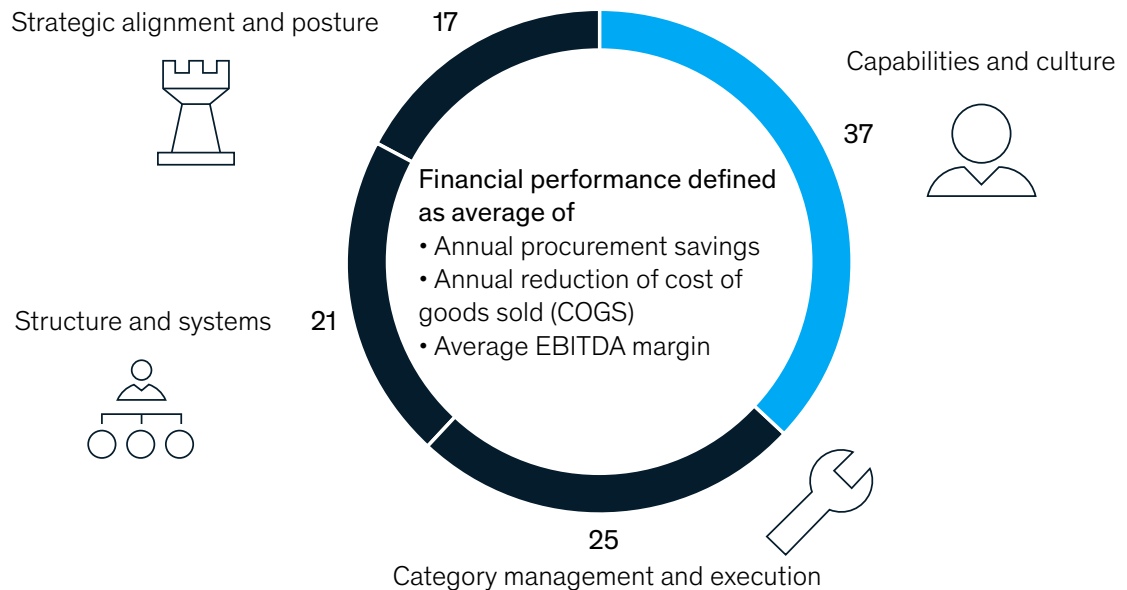
As CPOs turn their attention to longer-term value creation, talent and capabilities will naturally be at the top of the agenda. Our analysis of procurement practices and outcomes at more than 1,500 companies has shown that the capabilities and culture of procurement personnel are 1.5 to 2.2 times more strongly correlated with superior financial performance than any other factor (Exhibit 2).

Effective CPOs start work on their talent strategy quickly: hiring to fill critical skills gaps, adjusting

Exhibit 2

People are the most important driver of procurement excellence.

Correlation with financial performance, %



¹Based on multiple regression using partial least squares optimization to solve multicollinearity issues
Source: McKinsey Global Procurement Excellence team

roles, and investing in capability-building programs. Asked what he would do differently if given the chance, one consumer-goods CPO was clear about the importance of talent. “We were too slow to identify where we had skills gaps and needed to hire from the outside,” he told us.

Alongside their talent strategies, new CPOs will likely want to introduce new tools, technologies, and approaches. For a low-maturity organization, that might include the development of a formal category-management approach, while more-sophisticated functions may want to reap the benefits of digital procurement technologies. Applied at scale across a procurement organization, a digital transformation can use automation to accelerate the source-to-pay process by up to 30 percent, and boost value creation by one-fifth, thanks to better decision-

support tools and improved connectivity between stakeholders.

For the most mature procurement organizations, the pursuit of new value-creation opportunities may require innovative thinking. Some companies with advanced procurement capabilities have developed procurement-as-a-service offerings, for example, packaging their capabilities in a form that can be sold to suppliers, external customers, and even third-party organizations.

Drive personal growth

Today’s CPOs have a lot on their plates. With pressure to move fast and deliver value quickly, it can be easy to sacrifice ambitions for personal growth. That would be a mistake. The most successful CPOs understand that the long-term

development of their organization depends upon their own ability to bring new insights, ideas, and energy to the role.

That's why we recommend CPOs to approach their personal development with the same systematic rigor they would apply to helping develop other members of their team. As with any capability-building effort, the right mix of actions depends on the individual's starting point and strategic goals. Is this your first CPO role? Do you have a deep procurement background, or is most of your professional experience from other functions? What are your biggest strengths and weaknesses? What does your organization need from you that you don't feel ready to provide?

Based on this assessment, a new CPO can begin to build an individual capability-building plan. That is likely to involve efforts to develop technical capabilities, such as deeper knowledge of key categories or of cutting-edge digital tools. It is also likely to involve softer skills, such as leadership, coaching, and mentoring.

In a fast-changing, volatile world, perhaps the most important skill for every CPO is an open mind. Exposure to new ideas and willingness to learn from others can help CPOs advance their thinking, inspire their teams, and identify previously hidden sources of value for their organizations. One of the best ways to

do it is meeting and talking with other CPOs. Conferences, round tables, and industry events can be a great way for procurement leaders to grow their networks and share ideas. For some CPOs, relationships forged at these kinds of meetings have grown into more formal collaborations—inspiring joint capability-building programs, resource-sharing initiatives, and similar projects that benefit multiple parties.

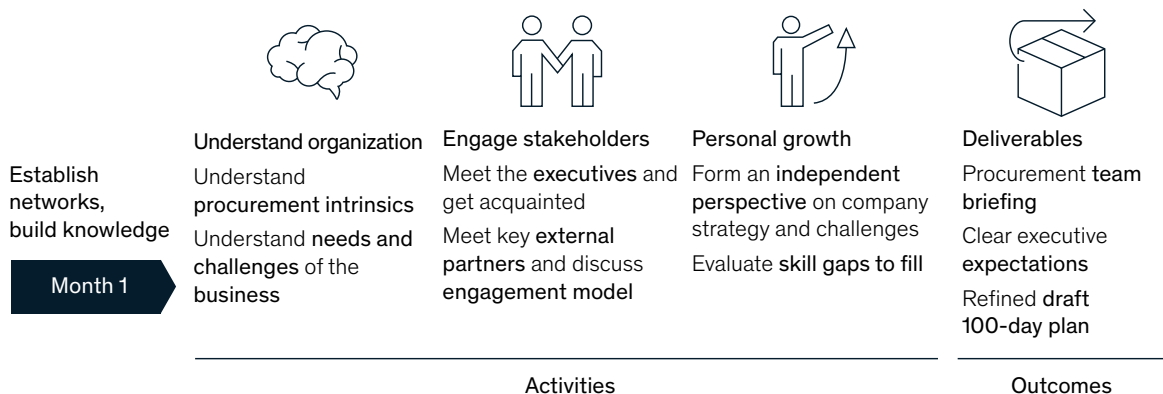
Build your 100-day plan

Based on the three priorities outlined in the article—understanding the organization, engaging stakeholders, and delivering impact—an incoming CPO can build a plan for the first 100 days. While recognizing the need for knowledge gathering, such a plan is action-oriented, with an emphasis on tangible steps that mobilize the procurement organization and generate value for the wider business.

The first month focuses on rapid information gathering and network building. The aim is to develop a strong grasp of the procurement organization's people, processes, and capabilities, along with a good understanding of challenges and opportunities in the wider business (Exhibit 3).

Exhibit 3

The first month of the 100-day plan builds networks and knowledge.



“We were too slow to identify where we had skills gaps and needed to hire from the outside.”

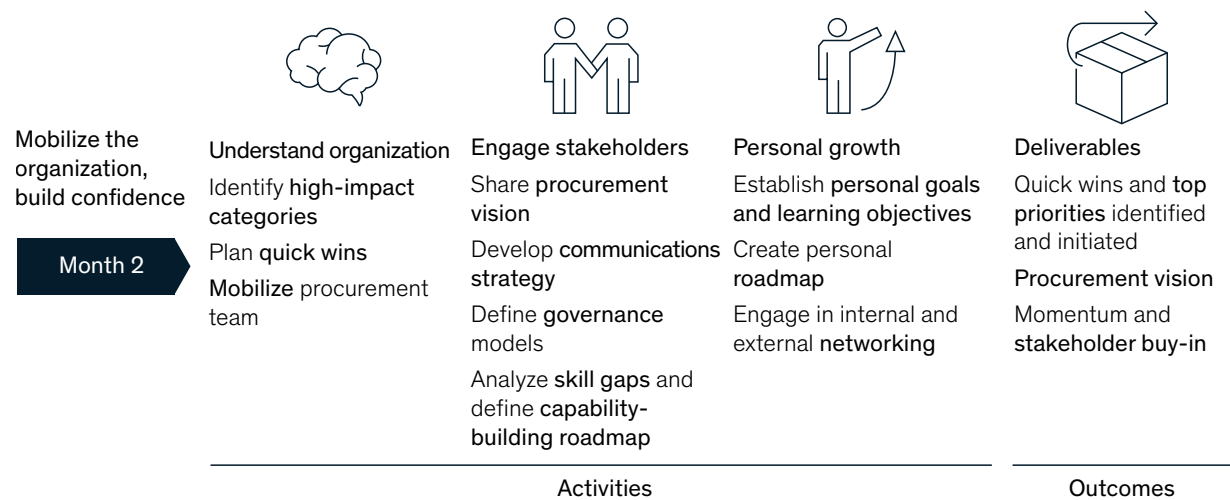
—CPO, consumer-goods manufacturer

In the second month, the emphasis should be on action: embarking on projects to deliver value in categories that are strategically important and show the highest impact potential. This work tackles short-term quick-win opportunities while laying the groundwork for initiatives that are expected to create significant value over the longer term. This middle part of the first 100 days is also the time to think in detail about procurement enablers: the capabilities, tools, and processes that will help the function improve its performance in the coming months and years (Exhibit 4).

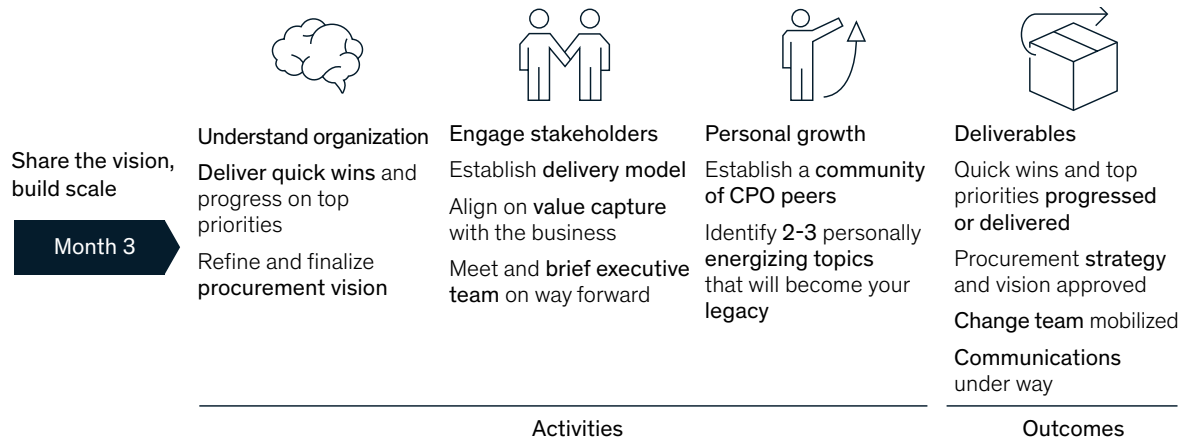
The third month is about impact at scale. This is the moment for CPOs to win sign-off on their plans from the top executive team, supporting their arguments with the early results from ongoing initiatives. With the green light from the top, the procurement organization can move forward on all fronts, introducing new processes and working with internal and external stakeholders to create sustainable long-term value (Exhibit 5).

Exhibit 4

The second month of the 100-day plan emphasizes action.



The third month of the 100-day plan creates impact at scale.



The to-do list for a new CPO is daunting: from identifying potential new sources of value across their organization to understanding the capabilities of their people and winning the trust of multiple internal and external stakeholders. By focusing on the most

important sources of value and following an agile approach, an incoming CPO can achieve those objectives while simultaneously delivering rapid cost reductions and value improvements for their organization.

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