



supplement to *Inside Supply Management*®

Institute for Supply Management™

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Paul Novak, C.P.M., A.P.P.
ISM Chief Executive Officer

This year was a turning point for business at ISM. We saw participation increase rapidly and to a greater extent than we had anticipated. This gave us the resources necessary to move ahead with several projects in fiscal 2005-2006.

We were very pleased with the rollout of the Richter Awards for Leadership and Innovation in Supply Management. The reception has been strong and we hope the award will become an important recognition in our profession for companies

demonstrating leadership and innovation in their supply management.

ISM is about growing and serving the supply management profession. We believe that fiscal 2004-2005 was a good year in this endeavor. I believe that fiscal 2004-2005 will prove to be the watershed year as the pace of change grows.

Paul Novak, C.P.M., A.P.P.

Institute for Supply Management™ (ISM) introduced a bold strategic plan in 2003. Over the past three years, ISM's mission to lead supply management has taken a firm hold and can be observed throughout many accomplishments in Fiscal Year 2004-2005.

PRESTIGIOUS SUPPLY MANAGEMENT AWARDS ANNOUNCED

A signal achievement in FY '04-'05 was the creation and announcement of an awards program designed to further the understanding and importance of supply management to business success. ISM named these prestigious supply management awards after R. Gene Richter (1937-2003), a leader and innovator in supply management. Richter led the supply organizations at The Black & Decker Company, Hewlett-Packard and IBM Corporation. His ideas and practices transformed modern thinking in the emerging procurement field. Applications for the inaugural R. Gene Richter Awards for Leadership and Innovation in Supply Management were accepted through the ISM Web site. Winners will be publicly announced next fiscal year. These ISM-sponsored awards will be given to organizations that demonstrate measurable, significant and sustainable leadership and innovation in supply management in one of four categories: Process, Organization/Structure, People or Technology.

MEMBERSHIP AND INTERNATIONAL ACTIVITIES REFLECT SPHERE OF INFLUENCE

Large companies and organizations continue to support their employees through ISM membership. Fourteen companies participated in ISM's Volume Discount Membership Program, representing a wide range of economic sectors and industries. Significant changes in strategy are underway in terms of recruitment and retention. An agreement with an outside marketing firm was established and gains in the area of membership recruitment are anticipated for FY '05-'06.

ISM welcomed France as the newest of its five international affiliates. Membership outside of the United States continues to grow, with significant increases in Hong Kong and Mexico. The Board of Directors has enjoined ISM to become a multinational organization, with full knowledge that no developed country is currently without a national supply management or procurement institute of some kind. This reality is an underlying consideration when the Institute considers partnerships or competitive approaches to leading supply management on the world stage. ISM is an active member of the International Federation of Purchasing and Supply Management (IFPSM), a union of national purchasing associations worldwide.

ISM displayed a global presence through education. Programs were delivered in the Netherlands, United Kingdom, Brazil, Thailand, Indonesia and Mexico. Courses in Brazil were delivered in Portuguese. Worldwide interest in the Certified Purchasing Manager (C.P.M.) designation remained strong, with particular strength in Korea.

During FY '04-'05, a thorough job analysis was conducted to ensure ISM's certification program encompasses new realities of supply management's complexity, including globalization, greater use of technology and the demand for expanded competencies. Subject matter experts provided guidance on the essential knowledge, skills and abilities that should be included in a qualification program that encompasses all components of ISM's definition of supply management. Based on the results of the job analysis conducted by Knapp & Associates International, Inc., ISM's Certification Committee submitted a recommendation to the ISM Board of Directors that ISM develop a new qualification program. In August 2005, the ISM Board of Directors approved the recommendation and directed that the new qualification program be available in 2008.

ISM received American National Standards Institute (ANSI) reaccreditation. This impartial certification is added assurance that ISM's certification program meets and exceeds international standards.

Institute for Supply Management™ defines supply management as the identification, acquisition, access, positioning and management of resources the organization needs or potentially needs in the attainment of its strategic objectives.

EXCELLENCE THROUGH EDUCATION AND EXAMPLE

The fiscal year was marked by a huge increase in seminar attendance, many for first-ever offerings. More than 1,650 enrollees attended one or more of 77 public seminars of 34 titles. Eight new programs were among the total 184 days of public seminar offerings.

Onsite education sales showed major gains. In a year, ISM delivered the equivalent of 165 days of onsite education training — up from 91 days in the prior fiscal year. Revenue from seminars nearly doubled, from \$375,000 to \$720,000. Customers continued to demand customization, which provided an additional \$150,000 in revenue.

Web-based products continued to be a popular part of ISM's overall professional development mix. The Knowledge Center offered new and upgraded self-paced online courses. More than 3,200 individuals participated in self-paced online courses and of that total, more than 450 online courses were delivered to onsite clients as part of a blended learning solution. ISM garnered substantial work by winning two major requests for proposals. The Institute developed and delivered custom courses, new tailored materials, case studies and company-specific exercises. A second training initiative with a major U.S. customer resulted in a blended learning solution that included more than 225 online courses and six classroom courses.

Four Satellite Seminars were presented in FY '04-'05 and remained a popular affiliate benefit. Each was viewed by more than 1,000 participants at an average of 100 affiliate sites across the United States. The October 2004

program, "Best Practices for Negotiations and Contracting," was produced jointly by ISM and the International Association of Contract and Commercial Managers (IACCM) and featured panelists representing both procurement and sales. A new interactive feature was part of the June 2005 Satellite Seminar, "Discovering Supply Management's Social Conscience." Individuals at each viewing site discussed a case example and relayed the site's consensus back to the program panel, who then discussed case analysis and audience responses in the final segment of the broadcast.

ISM supported CAPS: Center for Strategic Supply Research in the development and delivery of the 16th Annual North American Research and Teaching Symposium on Purchasing and Supply Chain Management in March 2005. That same month, ISM presented the 38th Annual Supply Management Program. In June 2005, ISM offered a new one-day program in New York on services procurement and worked with a leading consultant to deliver a blended learning solution 19-week program on Contracts and Legal Considerations.

ISM remained committed to the development of supply professionals from diverse backgrounds. The Institute, in conjunction with Howard University, held the 2nd Annual Black Executive Supply Management Summit in October 2004. The event provided African-Americans and others an opportunity to network with peers, share best practices, and discuss future supply management strategies. A mini-Black Executive Supply Management Summit was also held in May 2005. These Summits aim to "fuel the pipeline" through development and inclusion of supply chain management curriculum at Historically Black Colleges and Universities and other diverse institutions. In an effort to expand its presence at diverse business gatherings, ISM attended and exhibited at the conferences of the following organizations: National Society of Hispanic MBAs; National Black MBA Association; National Minority Supplier Development Council; and Women's Business Enterprise National Council (WBENC).

CONFERENCE REMAINS PINNACLE EVENT

Each year, ISM presents the premier supply management event — the Annual International Supply Management Conference and Educational Exhibit. In May 2005, more than 2,200 supply professionals gathered in San Antonio, Texas, for the 90th Annual Conference which featured

ISM COMPONENTS OF SUPPLY MANAGEMENT

Purchasing/ Procurement	Disposition/ Investment Recovery
Strategic Sourcing	Warehousing
Logistics	Distribution
Quality	Receiving
Inventory Control	Packaging
Materials Management	Product/Service Development
Transportation/ Traffic/Shipping	Manufacturing Supervision

more than 100 workshops, keynotes and an unparalleled Educational Exhibit Hall. Conference attendees represented the entire spectrum of experience including corporate executives, entry-level and seasoned professionals, and student scholars as well as representatives from industry trade, business and international media outlets. In addition to networking on industry-specific topics, Conference attendees came face-to-face with leading economic experts at the popular Business Survey/Economic Outlook presentation. The Conference Career Center provided job hunting resources and online career opportunities. In addition, ISM extended a special welcome to all international attendees with a special reception in the Conference Exhibit Hall.

The Permanent Conference Committee set in motion several changes to the Conference focus and format in San Antonio. Project Management was identified as one of four special "hot topic" areas and an entire day was devoted to this popular theme. Two half-day sessions were offered and could be taken in succession or separately.

ISM's Principles of Social Responsibility initiative, launched at ISM's 89th Annual Conference, was promoted extensively at the 90th Annual Conference. More than 12 "hot topic" Conference workshops were available. Flyers and posters recognized the growing number of organizations that have signed on to support ISM in this initiative. By the end of August 2005, 32 companies had formally extended their support.

TECHNOLOGY ADVANCES CONTRIBUTE TO THE COLLECTIVE GOOD

ISM's largest technology platform — its association management system (AMS) — was upgraded during FY '04-'05. The new platform will allow ISM to better serve members and customers and will enable affiliates to manage membership and operational functions using the ISM system. Two major implementations happened in FY '04-'05. New accounting and requisitioning/purchasing software replaced a near-decade-old system and all Web-based applications using the AMS data were converted.

ISM's e-newsletters continued to be valuable benefits. Produced in conjunction with the ISM Chemical Group, *ISM eDigest: Chemicals Electronic Newsletter* is a quarterly e-newsletter that provides more than 2,210 subscribers information on supply management topics pertinent to the chemical industry and those purchasing chemicals. *Just in ETime*, a biweekly e-newsletter containing ISM news, is sent to more than 5,123 subscribers. *Supply Line 2055: Certification Update*, a quarterly e-newsletter read by 5,995 subscribers, focuses on certification information.

Now in its second year of offering Web seminars, ISM staged an array of sponsored and fee-based programs. During the fiscal year, five Web events were underwritten by sponsors and advertisers and provided on a

complimentary basis to members and others in the field. Approximately 2,200 attendees participated in a total of five programs. In addition, five fee-based Web seminars were part of the mix.

As part of its mission to lead supply management, ISM endeavors to introduce the latest tools to supply professionals. ISM acquired exclusive North American rights to P-Strat Supply Management Strategy Simulation, a computer simulation that makes the supply management decisionmaking experience come alive. P-Strat bridges the gap between theory and execution. This hands-on tool was used as a component in a variety of platforms including leadership programs and a two-day public workshop simulation where groups competed against each other and were able to immediately see the impact of their decisions on overall costs, quality and profitability.

ISM LAUNCHES SUPPLY MANAGEMENT IMAGE CAMPAIGN

In March 2005, Supply Management Month marked the launch of ISM's supply management image campaign. The theme of the campaign, "Supply Management: Maximizing Opportunities, Managing Risk," was designed to run for several years in order to make a memorable impact on the perception of supply management. Supply management image campaign resources including logos, ad slicks, posters and flyers were accessible online to members. Proactive efforts to gain recognition for the supply management field were reinforced with a media interview training session held in May 2005 for members of ISM's Spokesperson Team. These experienced professionals were prepared to answer media inquiries and speak on behalf of the field when appropriate opportunities arose to raise awareness of the value of supply management.

During FY '04-'05, ISM released three official position statements. Each position statement emerged from a relevant issue or topic and went through a formal development and approval process. Topics included:

- Diversity Within Supply Management
- Supply Management Knowledge and Skills Critical for Preparing Future Business Leaders
- Supply Management Input Critical to Business Success

STRATEGIC PLAN MISSION: LEAD SUPPLY MANAGEMENT

- Expand the sphere of influence of supply management.
- Align Institute for Supply Management™'s organization with its Mission.
- Enhance ISM's revenue generation to ensure the resources necessary to support the Mission.

RESOURCE CENTER

The Resource Center completed its second year of meeting the distinct research needs of members and the profession through its two information components. The InfoCenter serves as a resource for members seeking information on supply management related topics. Research on Demand, a joint initiative between ISM and CAPS: Center for Strategic Supply Research, provides clients with customized secondary research reports for an individual set fee or through a discounted annual plan. Completed reports are forwarded to the client in five weeks or less. Research projects completed during Fiscal Year '04-'05 included a survey to determine the impact of the Indian Ocean tsunamis on the supply management profession.

LEVERAGING OUR STRENGTHS

Members and affiliate volunteers continued to transform the profession while supporting ISM's mission. During FY '04-'05, Leadership Training Workshops were held in Chicago, in Raleigh, North Carolina and in Las Vegas.

ISM Groups and Forums offered additional opportunities for industry-specific networking, professional development and volunteerism. Groups and Forums Support Council (GFSC) approved a new name: Electronic Supply Management Group (formerly Electronic Commerce Group).

ISM and the International Association of Contract and Commercial Managers (IACCM) participated in a project to benchmark standard contract terms and conditions from buyer and sales perspectives on an international scope. A comprehensive, multi-industry study was conducted from September through November 2004. More than 200 corporations provided input and, although input from North America was strongest, the results reflect an international perspective. The outcome was a series of five reports: Administrative Terms; Business Terms; Financial Terms; Intellectual Property/Data Protection Terms; and Legal Terms.

In order to better maximize resources, ISM outsourced sales activity for print advertising to Roy McDonald Associates, Inc. and JL Farmikas, Inc. This strategy will allow ISM to energize print advertising sales while existing staff develop and deploy competitive, relevant sales programs with lasting impact. Also, the production of *The Journal of Supply Chain Management* was outsourced to Blackwell Publishing. This move will increase visibility of the *Journal* through electronic distribution.

The year also brought a decision to redesign and reposition ISM's flagship publication, *Inside Supply Management*®. The revised publication will take advantage of ISM's mission to lead supply management and will debut with the March 2006 issue.

A. T. KEARNEY CENTER FOR STRATEGIC SUPPLY LEADERSHIP AT ISM

The A.T. Kearney Center for Strategic Supply Leadership (CSSL) at the Institute for Supply Management™ was launched last fiscal year, thanks to the sponsorship of global management consulting firm A.T. Kearney. The Center was an effective catalyst for new thought leadership in the field of supply management.

CSSL has become an exclusive executive development forum for chief purchasing officers (CPOs) and other senior executives who drive some of the most influential companies from a cross-section of industries. Participants in the Center's programs learn to build competitive business and supply chain capabilities today while closing the gap between the expectations of their CEOs and the results delivered by their organizations' supply partners.

In December 2004, Center trustees met in New York for "Strategies for 21st Century Supply Management: Creating the Supply That Your Organization Needs." In May 2005, the Center hosted the 4th Annual Power Conference in San Antonio, as part of the 90th Annual International Supply Management Conference and Educational Exhibit. In August 2005, executives gathered in Chicago for two programs, "Organizing Supply Management to Serve and Be Served: Influence and Reach Across the Organization" and "Bridging the Gap Between Development and Execution – Turning Ideas into Action."

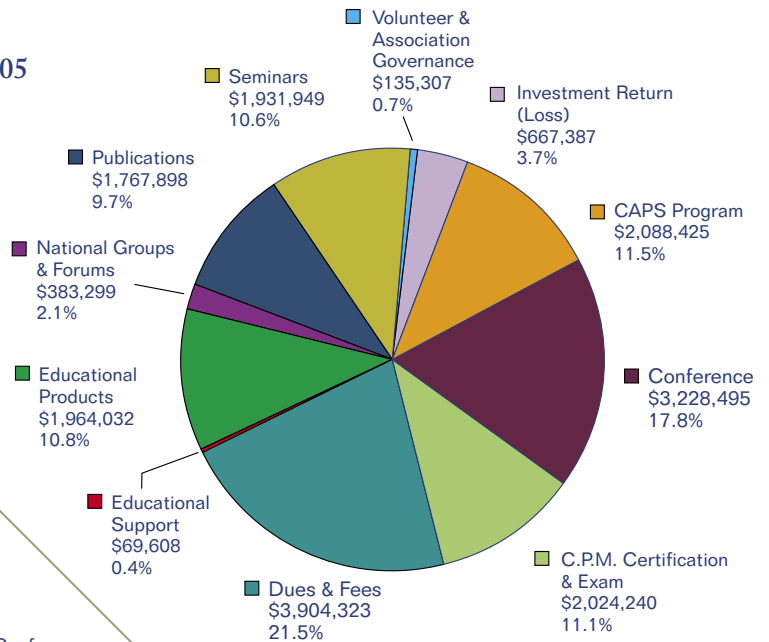
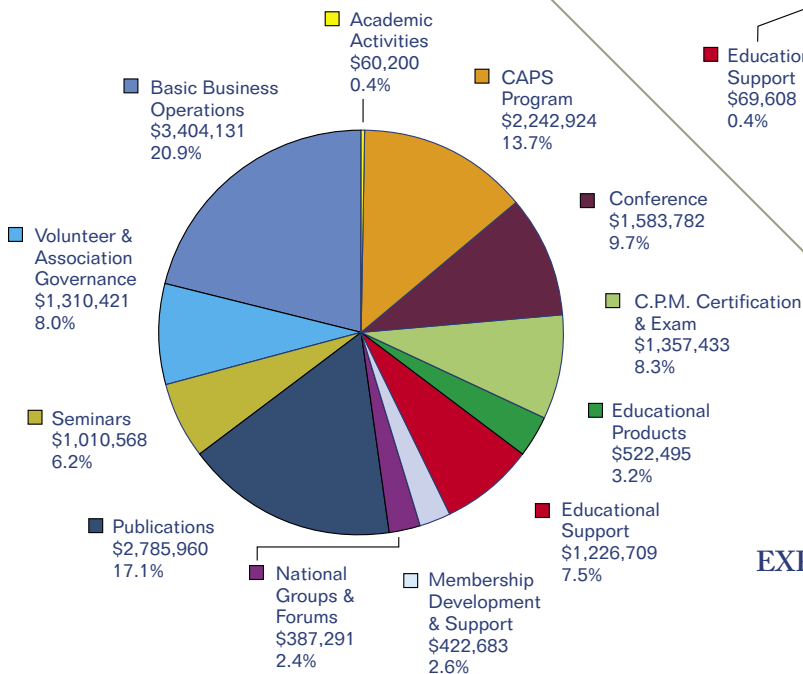
By advancing the supply management profession as a whole during FY '04-'05, ISM provided knowledge, programs and strategies for professionals of all supply management titles, positions and organizational roles.

Inside Supply Management®'s

Mission:

*Inside Supply
Management® is the
authoritative resource for
supply management
executives delivering
thought leadership, trends
and current issues.*

REVENUES 2004-2005 \$18,164,963



EXPENSES 2004-2005 \$16,314,597

FISCAL YEAR 2004-2005 FINANCIAL DETAILS

The third stated objective in support of our mission is to "enhance ISM's revenue generation to ensure the resources necessary to support the mission." In fiscal year 2004-2005, ISM succeeded in not only meeting our financial goals, but exceeding them.

Total assets and liabilities of the Institute were \$16,195,079. The change in assets and liabilities from the previous fiscal year was an increase of \$2,864,084. The organization finished the fiscal year with a \$1,672,130 increase in cash. This increase was due to a year marked by an upswing in seminar and conference attendance, on-site program demand and other products.

ISM realized gross revenues of \$16,076,538 and gross expenses of \$14,071,167, resulting in a positive net of \$2,005,371 for the fiscal year.

Investment returns and allocation of funds continued to be evaluated throughout the year to assure the best investments for the Institute's funds. Neither principal nor any accrued interest was withdrawn from our invested

funds. However ISM reallocated \$1 million from a variable annuity account to an investment fund which increased the gain on those funds from 3 percent to almost 7 percent. The return on our investment for the fiscal year was 7 percent.

CAPS: Center for Strategic Supply Research realized gross revenues of \$2,315,839, which included a \$200,118 contribution from ISM. Gross expenses were \$2,242,926, resulting in a positive net of \$72,913. These funds are noted separately because contributions made to CAPS: Center for Strategic Supply Research are limited for their use only.

Fiscal year 2004-2005 was a financially successful year due to the improvement in economic activity that fueled attendance at both new and ongoing ISM events. The Institute's staff continued to hold a tight rein on expenses, which also contributed to our bottomline results. We will continue to cost-effectively develop and provide new programs that will build upon the momentum we have started during fiscal 2004-2005.