

Institute for Supply Management™

annual
report



supplement to *Inside Supply Management*®

2005/06



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

The fiscal year that ended August 31, 2006 was, like every year for ISM, a challenging one and one that had many successes. The ISM mission is to “lead supply management” and we mean it in every sense of the statement. I believe that as you read the information that follows, you will see the connection between the mission and the activities outlined in this annual report.

ISM is increasing the organization’s relationships with those who are in leadership positions in our profession. We are building our capacity to get in front of issues, educational needs and information that serves each of us in our profession. At the same time, we strive to maintain our relationships with our affiliates, groups and forums.

We are well aware that to lead, we must involve those who occupy significant positions in the corporations that employ us. This does not mean that we have lost

our vision as an organization of members who are not all either employed by large companies or who are not in what are considered leadership positions in their companies.

As a not-for-profit organization, we have a duty to serve you with the information and education you demand. As a successful not-for-profit organization, we also recognize that we must achieve our objectives in a business-like manner. Organizations that fail to remember that there will be no success without a certain degree of financial success will cease to exist. ISM was reasonably successful financially during the fiscal year. This success allowed us to begin work on activities that you have heard about, such as the new qualification program, Certified Professional in Supply Management (CPSM).

I am confident that you will read about our further successes in the next annual report. I hope that you find this report informative, and that each of you will make it a point to avail yourselves of all that ISM offers you.

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

Institute for Supply Management™ (ISM) is committed to growing and serving the supply management profession. The world’s first and largest supply management institute demonstrated initiative in many areas during Fiscal Year 2005/06.

Innovative Supply Departments Honored

ISM was proud to showcase innovation and leadership in supply organizations and supply professionals by sponsoring the inaugural ISM R. Gene Richter Awards for Leadership and Innovation in Supply Management. Supply departments of all sizes and geographic locations submitted entries that were evaluated against pre-established criteria in four categories: People, Process, Organization/Structure and Technology. A blue-ribbon oversight committee of senior supply executives and academics approved final selection of winning entries.

The following companies were honored in Minneapolis at the 91st Annual International Supply Management Conference and Educational Exhibit: BP p.l.c.; DaimlerChrysler; Johnson & Johnson; KLA-Tencor; Fluor Hanford; and Rockwell Collins.



The ISM R. Gene Richter Awards for Leadership and Innovation in Supply Management:

- » Identify and share leadership and innovation in supply management practice within supply management departments.
- » Provide recognition to supply management departments receiving awards.
- » Promote supply management as a strategic contributor to the organization.
- » Enhance the profession in the eyes of senior management.
- » Demonstrate leadership and innovation practice through conferences, ISM publications, case studies and other media.

Fresh Editorial Approach, New Look for Magazine

ISM's flagship publication, *Inside Supply Management*®, unveiled a fresh editorial approach and complete redesign. *Inside Supply Management*®'s new format includes a regular column on leadership, continued coverage of ISM's monthly *Report On Business*® and a monthly showcase of company success stories. *Inside Supply Management*® reaches more than 40,000 members in ISM's network of domestic and international affiliated associations and continues to be the authoritative resource for supply management professionals, providing thought leadership, trends and current issues.



Championing a Broader View of Supply Management

ISM's new qualification program progressed at a rapid pace. The Certified Professional in Supply Management (CPSM) is being developed to represent the highest degree of professional competencies. The CPSM will debut in 2008 and focus on multidimensional roles such as strategic sourcing, risk and compliance management, logistics management, quality, inventory management, supplier relationship management and supplier diversity. Work is underway on the three separate CPSM Exams. Additionally, a bridge exam to the CPSM is under development for professionals holding the Certified Purchasing Manager (C.P.M.) designation and who meet the other criteria for the CPSM. One of several criteria includes holding a four-year degree from an accredited program.

Social Responsibility Initiative Continues

ISM continued to encourage support of its social responsibility initiative. A four-hour satellite seminar, *Ethics in Supply Management: Minding Your Actions and Decisions*, was presented in February 2006. The program included information gathered in an Ethics Survey conducted in FY '05-'06 that focused on drivers and barriers to ethical practices.

Numerous workshops on social responsibility topics were presented at the 91st Annual Conference. By the end of the fiscal year, more than 37 organizations had formally extended their support of this initiative. A number of supporting organizations also made monetary contributions to support this initiative.

ISM is committed to becoming the central repository of information in support of matters related to social responsibility and encouraging the supply management community to stay on the forefront to support social responsibility. The wealth and breadth of information on the ISM Principles of Social Responsibility Web site continues to grow online at: www.ism.ws/sr.

Spreading Knowledge and Expertise

Seminars delivered onsite to corporations totaled 180 days, an increase of 17 days over the previous year. Training was delivered in a number of global locations, including Angola, Azerbaijan, Brazil, Egypt, Jakarta, Mexico, Scotland and Trinidad.

ISM collaborated with European and U.S. subject matter experts to develop highly specific content for organizations to offer their supply management professionals. These blended learning programs combined the best of a variety of learning methods, including face-to-face instruction, Web-based self-paced courses, live conference calls, reading assignments and assessments.

More than 1,380 people attended one or more of the 77 public seminars of 32 titles. Three new programs were among the total of 184 days of public seminar offerings.

ISM supported CAPS Research in the development and delivery of the 17th Annual North American Research and Teaching Symposium, which for this year, was held in conjunction with other international organizations for a worldwide symposium.

In December 2005, the 6th Annual Services Group Conference was held in Scottsdale, Arizona. The sold-out program was titled, *The Services Spend: Your Value Powerhouse*. In June 2006, the 2nd Annual Services one-day program titled *The Power of the Services Supply Chain: Strategies for Innovation* was held in New York. The program was co-sponsored with the ISM Services Group and hosted by St. John's University.

Hospitality Supply Management (HSM) Forum and ISM presented a Spring Conference in Chicago and a Fall Conference in Anaheim, California. Sessions focused on supply management in the hospitality industry.

New to the public seminar mix for FY '05-06 was the program, *Advanced Strategies in Supplier Diversity*. The program was sponsored by ISM's Minority and Women's Business Development Group (MWBDG).

ISM Conference Includes Global Perspective

Supply professionals of all titles and organizational roles benefited from a wide array of learning events, conferences and activities in FY '05-06. The 91st Annual International Supply Management Conference and Educational Exhibit attracted more than 2,200 individuals from more than 27 countries to Minneapolis. The four-day learning event included four half-day sessions on project management, several extended and repeated sessions, and a popular Career Center. Attendees could choose from specific sessions on the supply management components of logistics, quality and human resources services and on the hot topics of risk, disaster management and planning, human resource aspect of supply management and strategic expectations for supply management.

ISM Conference attendees hailed from the following international areas:

*Argentina ~ Australia ~ Bahamas ~ Belgium
~ Brazil ~ Canada ~ China ~ Columbia ~
France ~ Germany ~ Hong Kong ~ Israel ~
Italy ~ Jamaica ~ Japan ~ Korea ~ Mexico
~ Netherlands ~ Norway ~ Panama ~
Philippines ~ Saudi Arabia ~ Singapore ~
South Africa ~ Sweden ~ Switzerland ~
Taiwan ~ Trinidad and Tobago ~
United Arab Emirates ~ United Kingdom*

Bold Changes in Strategy

Fiscal year '05-06 was a turning point in ISM's membership recruitment and retention strategy. An agreement with an outside firm, Marketing General, was enacted, and through extensive direct mail campaigns, ISM recruited 1,852 new members. Internal efforts to recruit and retain members still remain an essential component in meeting the strategic goals of the Institute.

Large companies and organizations participated in ISM's Volume Discount Program in the highest numbers yet. At the end of FY '05-06, 17 participants were recorded, representing 1,576 individual members.

Advancing the Image of Supply Management

FY '05-06 marked the second year of ISM's supply management image campaign. The key message, *Supply Management: Maximizing Opportunities, Managing Risk*, received national exposure in print ads that appeared in *BusinessWeek* and *USA Today* and on-air credits that were broadcast on National Public Radio.

ISM remained committed to the development of supply professionals from diverse backgrounds. In March 2006, ISM and Howard University presented a world-class program for black executives in Atlanta. The 3rd Annual Black Executive Supply Management Summit included peer sharing and coaching sessions for senior-level professionals as well as directors and managers.

ISM also attended and exhibited at the conferences of the following organizations: National Black MBA Association (NBMBAA); National Society of Hispanic MBAs (NSHMBA); National Minority Supplier Development Council (NMSDC); and Women's Enterprise Business National Council (WBENC). ISM promotes membership to individuals in these organizations and shares each organization's event information and announcements.

Asking Important Questions ... and Sharing Findings

ISM continued to conduct research to better understand how an increasingly complex business landscape affects the makeup of our organization, the educational demands of our members and the nature of the profession at large. The *2006 Member Needs Survey* gathered knowledge that is instrumental in creating educational products and services that address the professional development aspirations of supply professionals. In addition, ISM conducted its first Salary Survey and released a summary report in May 2006. ISM will benchmark future salary and compensation surveys against this initial endeavor.

Volunteer Spirit Remains Strong

ISM continued to offer Leadership Training Workshops to provide volunteers with resources and knowledge necessary for leading a successful affiliate. Summer workshops were held in Las Vegas, Baltimore and New Orleans. First-time volunteers joined seasoned veterans for lively roundtable discussions, Spirit Awards, networking and best practices discussions.

Advancing Technology Applications


To better serve members and other Web site visitors, ISM implemented an intelligent content management system (CMS-Plus) that displays content based not just on user requests, but on user behavior. CMS-Plus also reports on the interest areas of our users, and compares that to the content on the site. This allows ISM to more effectively deliver content of interest to each site visitor. ISM also upgraded the ISM Knowledge Center, our platform for delivering online learning and education. The enhanced functionality in our new Learning Management System (LMS) complements the number and variety of our self-paced online course offerings. The new Knowledge Center now offers an intuitive interface that allows users to easily navigate to the information that is needed, offers quicker access to course and transcript information, and provides enhanced tools to better meet customer needs. During the fiscal year, more than 5,700 individuals participated in courses in the ISM Knowledge Center.

ISM's Online Career Center averaged more than 200 jobs posted per month. More than 900 ISM members posted their résumés to the Career Center,

and more than 20,000 users have registered to participate in the Career Center.

Internally, ISM upgraded workstations and core network services for all employees, improving efficiency and positioning ISM for continued improvement in service to our members and customers.

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™ celebrated its two-year anniversary.  **THE CENTER**
for Strategic Supply Leadership

The Center is a catalyst for new thought and discovery in the field of supply management. CSSL is committed to exploring the two- to four-year horizon of supply management and translating it into robust, strategic development programs for executives. It also focuses on the career paths and future opportunities of chief purchasing officers (CPOs) and their direct reports. CSSL closes the gap between the growing expectations of CEOs and the results delivered by their organizations' supply partners.

A number of insightful programs were held during the past fiscal year. In December 2005, supply executives met in Miami for *Charting and Navigating the Pathways for CPO Evolution*. Two programs were held in March 2006: *Supply as a Financial Driver*, and *Discovering Your Organization's Future — Defining Supply for the Remainder of the Decade*. Finally, senior executives met in Chicago to discuss *Supply as a Value Driver: Successes Through Relationships*.

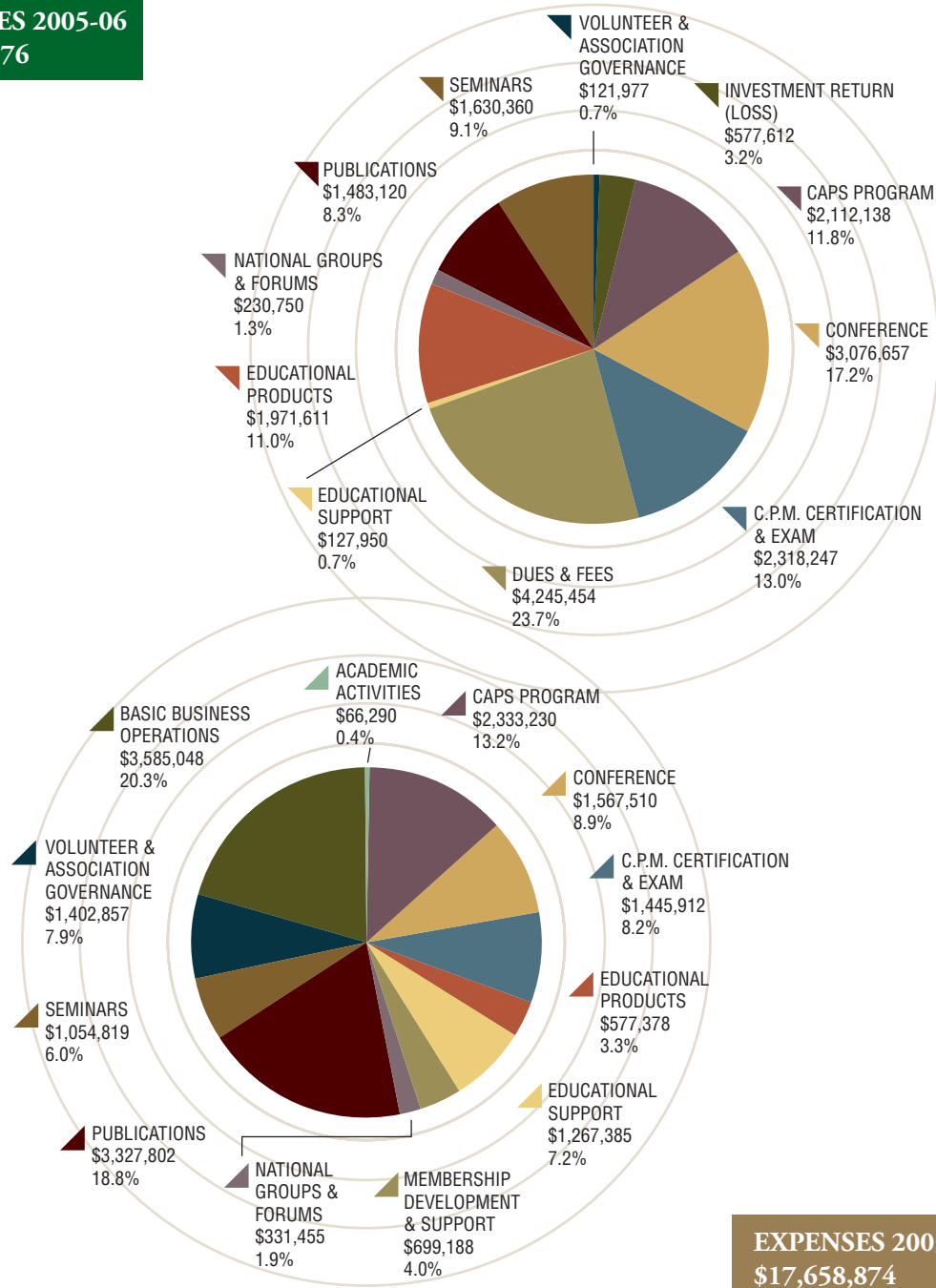
Strategic Plan

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.

REVENUES 2005-06 \$17,895,876



Fiscal Year 2005/06 Financial Details

Total assets and liabilities of the Institute were \$16,572,655. The change in assets and liabilities from the previous fiscal year was an increase of \$377,576. The organization finished the fiscal year with a \$52,888 decrease in cash.

ISM realized gross revenues of \$15,716,805 and gross expenses of \$15,325,644, resulting in a positive net of \$391,161 for the fiscal year.

ISM's allocation of invested funds is evaluated in detail each January by the Finance Committee with input from our investment advisor. In January 2006,

the Finance Committee recommended, and the Board approved, re-allocation of approximately \$7 million of ISM reserves. This re-investment of funds took place from February to April 2006. ISM realized a 4.4 percent return on invested funds for the fiscal year.

CAPS Research (CAPS) realized gross revenues of \$2,505,371, which included a \$326,300 contribution from ISM. Gross expenses were \$2,333,230, resulting in a positive net of \$172,141. These funds are noted separately because contributions made to CAPS are limited to CAPS use only.