

INSIDE

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In this Issue

from the managing editor

By John Yuva
Editor



A New Slate

Begin 2015 with a brief reflection on the previous 12 months before embarking on new and exciting initiatives.

As we progress through our first month of 2015, take note of the things we want to accomplish in the new year. What changes do we need to make to achieve our goals? Are there relationships we must cultivate to gain buy-in for a major initiative in the first quarter? How can we approach selling our value differently in our companies? What projects did we fall short on last year and how can we improve upon that? And even if our fiscal year is different from the calendar year, January often feels like we're beginning with a new slate.

With January comes a new slate — a new era — for Institute for Supply Management®, as well. In this month's issue, take a step back in time to learn about ISM's beginnings and the many milestones we've achieved over its centennial. Our cover story (page 18) includes an ISM time line of major events throughout our history, including the institute's early involvement in business ethics, the reliance of government agencies and economists on the ISM® *Report On Business*®, and the role of education within the institute. Also, learn some interesting facts sprinkled throughout the pages and see the progression of your member publication *Inside Supply Management*® from its origin in 1916 as *The Purchasing Agent*.

Our centennial coverage also extends into a *Then & Now* section (page 28) as we examine three areas with significant impacts on the profession: technology, globalization and economic changes. How did these areas help shape our institute and profession? And what can we expect going forward?

Other articles this issue include an insightful piece, *Where We've Come From and Where We're Going*, (page 10) by Shelley Stewart, Jr., CPSM. Stewart discusses how the field of supply management has matured and the opportunities that exist. And in the article *3 Critical Benchmarks to Prove Your Worth* (page 34), a new CAPS Research study examines metrics for supply management practitioners on how to demonstrate value to the organization.

Our first issue of the year is an exciting one for many reasons. However, we're even more excited about the content we're preparing for the remainder of the year. Here's to a great 2015! **ISM**

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Rethinking Our Value and Our Story

It's something of a paradox: The best of us create significant value for our companies, and yet, as a profession, we tend to measure and report our performance in ways that undersell — if not actually undermine — the recognition we deserve for our contribution.

I have many opportunities to address the theme of performance recognition, including talks this year in New York and Melbourne, Australia.

A favorite example that I like to use is purchase price variance (PPV). According to ISM Research, PPV is the single most commonly reported performance metric on CPOs' scorecards.

In theory, PPV measures the difference between the actual price paid for a product or component and its standard price. A positive variance indicates the success of the firm in buying below standard cost, and thus is interpreted as an indicator of the performance of the procurement team.

In practice, however, a number of factors influence the calculation of standard cost. To cite but a few: the layering issue, (the difference between cost as reported on payment documents versus what is recorded by a FIFO or LIFO accounting method), volume assumptions and whether orders are placed on a standard versus a rush basis.

Other factors include materials shortages, availability of substitutes or simply changing suppliers. Because many of these factors may not be directly controlled by procurement, a reported variance may or may not reflect the function's actual contribution to cost reduction (assuming a positive variance).

The CPO of a Fortune 500 discrete manufacturer admitted as much to me in a recent conversation. While his firm reports PPV, he doesn't regard it as a reliable measure of actual cost; rather, he sees its value in reinforcing a disciplined focus on cost reduction.

If the problematic PPV is one of our best — or at least most prevalent — measures, is it any wonder we sometimes have difficulty demonstrating the value we drive for our companies, particularly on our financial statements?

One way we could do better is to measure our contribution to innovation. Here's how Ford CFO Bob Shanks put it in a recent earnings call with Wall Street: "... with those product costs, that's new product, new features, new technologies, so we'll also get more pricing. So you have to kind of think about all that together."

In Ford's case, new technological innovations allow the automotive industry to charge higher prices, features introduced by suppliers. That's procurement controlling costs and driving top-line growth, and where, as a profession, we have to do a better job of telling our story. **ISM**



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Comm*Oddities*

Milk

Got milk? In recent moos, U.S. milk commodity prices rose to record highs in September 2014, churning out higher costs for pizza and pastries right when Americans double down on dairy consumption for football festivities and holiday baking.

Where in the world does it come from? Of the U.S.' 9.23 million dairy cows, most call California the green grass of home. German cows steer the world's milk exports.

What other animals provide milk? Buffalos, goats, sheep, camels, donkeys, reindeers and yaks; Russia and Sweden even milk moose in small-scale dairies.

And that's a fact. Sixty-five percent of adults are "pasteur prime," so to speak, when it comes to milk, and lactose-intolerant. And Louis Pasteur is the father of pasteurization, but did you know his experiments are often cited as against medical ethics? Meanwhile, when your mouth's ablaze from snacking on spicy foods such as salsa, milk can put out the fire, unlike water or alcohol that fan the flames.



How Can U.S. Manufacturers Thrive Amid Volatility and Uncertainty?

New analysis from Accenture (available at www.accenture.com/us-en/Pages/insight-us-manufacturers-thriving-world-volatility-uncertainty.aspx) suggests a lack of operational flexibility may be hindering the manufacturing sector in the United States, particularly in the Midwest. The study, which finds a correlation between growth anticipated by companies from around the world and the flexibility with which they operate, gives top scores in manufacturing flexibility to Brazil, China and the U.S.

U.S. regional data finds that manufacturers in the Midwest struggle on three dimensions that play a dominant role in fostering their operational flexibility: their use of digital technologies, management of physical assets and strength of their workforce's talent and skills. These factors play a key role in the extent to which manufacturers can operate flexibly and move quickly to capture new markets, scale production up or down, exit a market when an opportunity subsides or manage risks along their supply chain.

What CPOs Need to Succeed in Procurement

Two-thirds (66 percent) of CPOs say they don't have enough resources to manage their procurement operations effectively, according to a new survey by Consero Group (www.consero.com). The results are part of the *Fall 2014 Procurement & Strategic Sourcing Data Survey*. The finding represents an 11 percent decrease from 2013.

Eighty-five percent of CPOs say cost reduction is their top priority over the next year. In addition, only 34 percent of CPOs believes that there's a sufficient pool of trained procurement talent available to support their hiring needs, a 21 percent decrease from 2013. Other findings include:

- Seventy-one percent of CPOs say their top area of risk is suppliers.
- Seventy-two percent are not able to achieve tangible cost reductions through sustainability programs.
- Ninety percent say they have a better relationship with their key suppliers than they did 12 months ago.

A Moment in Time

1915-1929

Business is not in for a prolonged period of suffering, but the inevitable effect of the stock market panic such as we are now in will be similar in some respects compared to the trends outstanding in the crashes of 1904, 1907, 1914 and 1920. Until we are well into 1930, general business will fall down considerably, compared with the peaks of a few months ago, and commodity prices, although showing no inflation, will sympathize.

— *Bulletin of the National Association of Purchasing Agents*, November 11, 1929



The Milestone Year — In April this country entered World War I, and the great industrial effort that had been picking up speed since hostilities broke out a few years before really went into high gear. As production climbed and materials grew scarcer, procurement became an increasingly complex and significant function.

— *Fifty Years of Purchasing*, Paul G. Farrell, Managing Editor, *Purchasing*



Real associated efforts among purchasing agents can bring about the major stage of predicted development in the next five years. It is for purchasing agents themselves to determine what shall be done.

— *Bulletin of the National Association of Purchasing Agents*, January 1923

Employment Department — Situations Wanted. PURCHASING AGENT, age 32, well educated, good appearance, 5'11" tall, weight 185 lbs., experienced in automobile business, also office supplies and equipment. Capable live executive with knowledge of accounting. Interested in new connection. Box 23, c/o Purchaser, 19 Park Place, New York City

— *The Purchaser*, October 1923



“Study the past if you would define the future.”

Confucius
Chinese Philosopher

More Choppers Needed — The February issue of the monthly calendar series sent out by a New England manufacturer advises “Chop your own wood and it will warm you twice.” In the Connecticut Association there are men who recognize that this is a fact and are glad to do the “chopping” without which we could not succeed. They realize that the association’s value to them is doubled when they actively engage in its work and the formation of its policies by which their association’s future is determined. Others are content to “warm” themselves only once after the “choppers” have supplied the fuel. Think it over.

— *The Connecticut Purchaser*, March 17, 1925

Study Purchasing at Home — Chicago University Offers Course by Mail. Youthful purchasing department employees and others desirous of advancement in the profession now have the opportunity of studying at home by enrolling in the University of Chicago’s Home Study Course in Purchasing and Storing ... A tuition fee of \$25 plus the usual matriculation fee of \$10 is charged beginning students.

— *Bulletin of the National Association of Purchasing Agents*, September 1926

Where We've Come From and Where We're Going

The first 100 years of ISM® have brought us this far. Where will the next 100 years lead us?

Many of us who somehow landed in this profession around the time I did — some 30-plus years ago — can hardly believe the profound changes that we've witnessed during our careers. Although I haven't been in the field quite as long as the Institute for Supply Management® (ISM®) has been around (despite the belief of some of the younger employees with whom I work), I have certainly seen a huge evolution in the practice of supply chain management. With the centennial of ISM upon us, let's consider the past, present and future of our profession — it has become a science!

The Profession

It wasn't long ago that people passed through supply chain positions, or found themselves in these roles as a matter of happenstance rather than design. Now, colleges and universities offer specialized programs in supply chain and logistics, and new graduates have theoretical knowledge that took many of us years of practice to develop. While the science of supply chain management will

continue to evolve, we will still need experienced professionals to help these new graduates build on their classroom learning by providing hands-on experience through co-ops, internships, and coaching and mentoring.

However, academic specialization doesn't mean that our organizations should be built entirely of supply chain majors. Diversity of people and perspectives are essential for progress. We must continue to include engineers, finance majors, marketers and others steeped in more general business knowledge. Supplementing supply chain professionals with those from other parts of the company with varied backgrounds not only brings benefits to the organization, but also spreads the good news of the value we create throughout the larger company.

Another measure of how our field has matured is the growth of external support. The number of consultants who specialize in all aspects of supply chain management has increased significantly, with many different offerings. Additionally, technology and tools have also proliferated. These days,

there are even "apps for that." This technology provides real opportunities to accelerate the value we create for supply chain organizations.

The Science

In the early days of our profession, continuity of supply ruled: Have the right parts in the right place at the right time. "I don't care what it takes, but keep those bins filled" was the direction under which we operated. As we have learned more about the science behind our plan/source/make/deliver activities, our goal now is usually to have only the necessary material available to still keep the factory running. Developing the science of inventory management is just one way we're doing business differently.

In the past, once continuity of delivery was established, our focus was almost always on price. Now total cost of ownership (or value beyond cost) alerts us to the opportunities to unveil hidden costs. Smart supply chain practitioners recognize that those costs also present opportunities for value creation: More factory up-time, fewer quality incidents and even reputational enhancement can result when you pay attention to what lies under the price "waterline" — which was left largely unexplored in the past.

We continue to develop new concepts that allow us to deliver more benefits for our companies in other ways, too. Using enhanced technology analytics and having better market data at our fingertips gives us unprecedented opportunities to enhance our value proposition.

We can't stop the journey that we are on. "We've always done it this way" is the path to diminishing returns. Being open to new techniques, being willing to tap the developments taking place in the industry and benchmarking with our peers are all vital if we are to take advantage of what the future holds. For example, five years ago, you didn't hear much about sustainable supply chains, and now we are all paying attention to this concept.

The Relationships

Interacting with our internal

stakeholders has changed tremendously over the years. Knowing how to engage and sell as well as deliver the organization's value proposition is incredibly important. Educating leadership around the elements of total cost of ownership and the need to invest in your supply chain just as you invest in other aspects of the business are critical to today's high-performing organizations.

The other huge opportunity is the often untapped resources from the improved relationships with our suppliers. The buy/sell relationship is a thing of the past. The greatest value is now being derived from deeper relationships and allowing our suppliers to help us collaboratively solve our problems and drive innovation.

Our Future Is Bright

And so "investment" is where we leave this discussion. Our

future as a profession will reflect the investments we make today. Our time, our talent, our resources — Where would you invest them to create the supply chain professional of the future, known and respected for the value he or she delivers?

Our journey with ISM so far has allowed us to create significant value for our companies. The questions are, what does the next 100 years hold for our profession and will the science of supply chain continue to evolve? I say "yes" to the latter, and, for the former, I look forward to being a part of the continued evolution of our profession and helping shape that answer. **ISM**

Shelley Stewart, Jr., C.P.S.M., is vice president and chief procurement officer for DuPont Sourcing & Logistics in Rochester, New York. For more information, send an email to author@ism.ws.

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The Freight Equation in TLC

Freight options and other variables affect your total landed cost, so factor them into the overall cost to achieve optimal savings.

Whether you're involved in direct or indirect procurement, a thorough cost analysis is critical to making decisions based on the lowest total landed cost (TLC) — that is, all costs associated with a particular commodity or product, including both inbound and outbound freight costs.

In some cases, supply management practitioners focus on the materials and direct product costs, and consider the inbound/outbound costs separately. However, logistics expenses can vary greatly depending on the circumstances.

When I sourced employee aprons for The Home Depot, for example, I analyzed the product cost as well as the logistics costs. I had to gather pricing details regarding how the aprons would be shipped to various shipping locations within the United States. This included looking at freight prepaid, freight prepaid and add, and freight collect scenarios to see which supplier had the lowest total landed cost. This information helped drive optimal savings overall, as these aprons were distributed to the thousands of retail locations around the U.S.

Some typical factors in a TLC analysis may include product cost, inbound freight to a third-party

logistics provider (3PL), 3PL markup/pick-pack fee and outbound freight from 3PL to the final destination. By compiling and analyzing this information, the most cost-effective solutions will usually become clear. Running a TLC analysis will sometimes reveal, for instance, that one supplier might be more competitive because they have multiple distribution centers instead of one, which would save on outbound freight. It is critical to understand the current shipping terms for the category that you are sourcing so you can truly compare apples to apples. For example, if the product you're sourcing doesn't include freight in the price (freight collect or prepaid add), you'll need to pull the freight spend for that particular category in order for your analysis to be accurate.

Analyzing Freight Options

Freight costs play an important role in your TLC analysis because you may be able to secure additional savings by leveraging your freight contracts — parcel, less-than-truckload (LTL) and full truckload (FTL) — and your distribution network. As mentioned earlier, it's important to document the differences between the available freight options. You may discover that you have better freight pricing than

your supplier does, and are able to capture those savings. Freight options include the following.

Freight collect. In freight collect scenarios, the buyer pays for freight the supplier will use to ship the product using the buyer's pre-negotiated rates. Often, this results in the supplier using the buyer's negotiated rates in place of its own. This option places the responsibility for the cost on the buyer, meaning the product cost doesn't include freight. This is an ideal option that works best when your procurement organization has more leverage or purchasing power with freight carriers than the supplier, which will ensure a lower TLC for the product.

Freight prepaid. This is when the supplier includes the freight cost in the product cost. You need to carefully analyze using freight prepaid for two reasons: first, because it's easy to forget that the freight costs have been rolled into the product cost when you're analyzing expenses, and second, because this method of shipping determines who is responsible for the freight expense for the specific transaction. On the other hand, freight prepaid is more predictable from a budget standpoint when you're examining TLC, because you've already calculated the freight cost.

Prepaid and add. Having an item shipped prepaid and add means that the product cost only includes the product, and not the

freight. The supplier will add the freight costs to the invoice. This method is best used to gain more visibility into the freight expenses, which will allow for further analysis. For example, you may conclude that after performing a TLC analysis, your supplier has lower freight costs than you and that you want to isolate the freight to where you can run additional freight analysis, so it may make sense to finalize the negotiation with the product being shipped freight prepaid and add.

Side-by-Side Comparisons

In order to create an accurate TLC analysis, you must first know the baseline spend for the category you're sourcing. This is where your current state freight choice becomes important. For example, if you're using freight prepaid, then the product cost has the freight already figured in — in this case, this would be your current state TLC because the freight was already included in the price. If, however, the baseline is freight collect, you'll have to determine the amount spent on transportation costs to analyze the item's TLC. It's important to be certain all costs are included or your data will be skewed and inaccurate.

There are many different costs associated with a category, including product costs, freight costs, pick/pack costs and other peripheral costs unaccounted for by any other category. Always consider these costs when launching an RFX for any product, because it will help ensure that you know the price point of all items that make up the TLC. A best practice would entail having your suppliers provide pricing based on the multiple shipping points in the pricing template (freight prepaid, freight collect). You could then run optimization scenarios once you had determined

the multiple pricing scenarios. One very important tip: Don't forget to ask for origin ZIP codes when analyzing freight collect in order to accurately complete the analysis, as the costs to ship from different locations can vary greatly.

One of the best ways to correctly predict freight costs is to make a side-by-side comparison of the options. Use the following steps to determine the transportation costs for each option.

For vendor to final destination:

- **Analyze pricing based on outbound freight prepaid.** The supplier may have lower freight costs and with fixed pricing for freight, which is ideal for budgeting purposes.
- **Analyze pricing based on outbound freight prepaid and add.** The supplier may have lower freight costs and you want to maintain visibility of the freight costs for additional analysis.
- **Analyze pricing based on outbound freight collect using parcel, LTF or FTL.** Select this when you have lower freight costs than your supplier.

For vendor to 3PL to final destination:

- **Analyze freight collect inbound to 3PL and freight collect outbound to final destination.** Leveraging both your lower freight costs in the 3PL and the 3PL's distribution network is ideal in situations where you have a lot of items that need to be consolidated and shipped to specific locations on a continual basis.
- **Analyze freight prepaid inbound to 3PL and freight collect outbound to final destination.** This is similar to the previous option, except in this case you're leveraging the supplier's freight costs into the 3PL as well as the 3PL's distribution network. Again, this is ideal if you have a lot of items

that need to be consolidated and shipped to specific locations on a continual basis.

Leveraging your negotiated freight rates upstream through the supply chain also provides a similar side-by-side comparative cost analysis. This kind of comprehensive cost analysis can give your organization a grasp of the overall cost of the various methods, including costs involved in ascertaining raw materials for products directly from suppliers.

Making the Final Comparisons

It's essential to compare the results from the RFX to the current state, which is your baseline. In my experience, I would gather all of the pricing proposals and then compare them to the current state to find any potential savings. In the final analysis, you should have a list of all of the costs for shipping using the various methods we've discussed to compare your TLC in each scenario.

Finally, place your comparisons in an Excel spreadsheet or other tool to evaluate the results. It does help to organize your different options in a format that's quick and clear for everyone in your organization to understand.

When executed with clarity and accurate data, the TLC analysis model is the most effective tool you can use to analyze costs. It offers the best picture of all supply chain expenditures and costs for both direct and indirect procurement. Knowledge is power, and knowing the TLC will help you choose the right option for freight optimization. It can mean the difference between creating higher profit margins and barely breaking even. **ISM**

John Voorhis is a strategic sourcing manager, procurement, for The Home Depot in Atlanta. For more information, send an email to author@ism.ws.

Economic activity in the **manufacturing sector** expanded in December for the 19th consecutive month, and the overall economy grew for the 67th consecutive month, say the nation's supply executives in the latest **Manufacturing ISM® Report On Business®**.

The December PMI® registered 55.5 percent, a decrease of 3.2 percentage points from November's reading of 58.7 percent. The New Orders Index registered 57.3 percent, a decrease of 8.7 percentage points from the reading of 66 percent in November. The Production Index registered 58.8 percent. The Employment Index registered 56.8 percent, an increase of 1.9 percentage points above the November reading. Inventories of raw materials registered 45.5 percent. The Prices Index registered 38.5 percent. Comments from the panel are mixed, with some indicating that falling oil prices have an upside while others indicate a downside. Other comments mention the negative impact on imported materials shipment due to the West Coast dock slowdown.

The 11 industries reporting growth in December – listed in order – are: Printing & Related Support Activities; Fabricated Metal Products; Primary Metals; Furniture & Related Products; Food, Beverage & Tobacco Products; Petroleum & Coal Products; Textile Mills; Paper Products; Miscellaneous Manufacturing‡; Electrical Equipment, Appliances & Components; and Transportation Equipment. The six industries reporting contraction in December are: Plastics & Rubber Products; Wood Products; Machinery; Nonmetallic Mineral Products; Chemical Products; and Computer & Electronic Products. **ISM**

‡Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies).

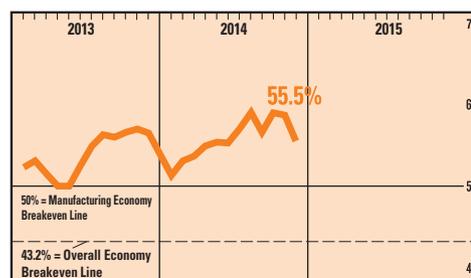
PMI® at 55.5%

New Orders, Employment and Production Growing; Inventories Contracting; Supplier Deliveries Slowing

Manufacturing at a Glance

INDEX	Dec Index	Nov Index	% Point Change	Direction	Rate of Change	Trend* (months)
PMI®	55.5	58.7	-3.2	Growing	Slower	19
New Orders	57.3	66.0	-8.7	Growing	Slower	19
Production	58.8	64.4	-5.6	Growing	Slower	10
Employment	56.8	54.9	+1.9	Growing	Faster	18
Supplier Deliveries	59.3	56.8	+2.5	Slowing	Faster	19
Inventories	45.5	51.5	-6.0	Contracting	From Growing	1
Customers' Inventories	44.5	50.0	-5.5	Too Low	From About Right	1
Prices	38.5	44.5	-6.0	Decreasing	Faster	2
Backlog of Orders	52.5	55.0	-2.5	Growing	Slower	3
Exports	52.0	55.0	-3.0	Growing	Slower	25
Imports	55.0	56.0	-1.0	Growing	Slower	23
Overall Economy				Growing	Slower	67
Manufacturing Sector				Growing	Slower	19

*Number of months moving in current direction. Manufacturing ISM® Report On Business® data is seasonally adjusted for the New Orders, Production, Employment and Supplier Deliveries Indexes.



PMI®

Manufacturing expanded in December as the PMI® registered 55.5 percent, a decrease of 3.2 percentage points when compared to November's reading of 58.7 percent, indicating growth in manufacturing for the 19th consecutive month. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.



Note: The number of consecutive months the commodity is listed is indicated after each item.

*Reported as both up and down in price.

Commodities Reported

Commodities Up in Price: Aluminum* (11); Electric Components; Natural Gas; and Stainless Steel* (10).

Commodities Down in Price: Aluminum*; Brass; Cardboard; Copper (5); Crude Oil (2); Diesel (3); Gasoline (3); HDPE Resin; Oil; Oil Based Products (2); PET Resin (2); Plastic Resin; Polypropylene Resin; Scrap Steel; Stainless Steel* (2); Steel; and Steel – Hot Rolled (2).

Commodities in Short Supply: No commodities were reported in short supply.

Analysis by **Anthony Nieves, CPSM, C.P.M., CFPM**,
 chair of the Institute for Supply Management®
 Non-Manufacturing Business Survey Committee.

NMI® at 56.2%

Business Activity Index at 57.2%; New Orders Index at 58.9%; Employment Index at 56%

Non-Manufacturing at a Glance

INDEX	Dec Index	Nov Index	% Point Change	Direction	Rate of Change	Trend* (months)
NMI®	56.2	59.3	-3.1	Growing	Slower	59
Business Activity	57.2	64.4	-7.2	Growing	Slower	65
New Orders	58.9	61.4	-2.5	Growing	Slower	65
Employment	56.0	56.7	-0.7	Growing	Slower	10
Supplier Deliveries	52.5	54.5	-2.0	Slowing	Slower	2
Inventories	50.0	55.5	-5.5	Unchanged	From Growing	1
Prices	49.5	54.4	-4.9	Contracting	From Growing	1
Backlog of Orders	49.5	55.5	-6.0	Contracting	From Growing	1
New Export Orders	53.5	57.0	-3.5	Growing	Slower	9
Imports	50.0	53.5	-3.5	Unchanged	From Growing	1
Inventory Sentiment	59.0	63.0	-4.0	Too High	Slower	211

*Number of months moving in current direction.
 Non-Manufacturing ISM® Report On Business® data is seasonally adjusted for the Business Activity, New Orders, Prices and Employment Indexes.



economy is generally expanding; below 50 percent indicates the non-manufacturing sector is generally contracting.

NMI®

In December, the NMI® registered 56.2 percent, a decrease of 3.1 percentage points when compared to November's reading of 59.3 percent, indicating continued growth in the non-manufacturing sector for the 59th consecutive month. A reading above 50 percent indicates the non-manufacturing sector

Economic activity in the non-manufacturing sector grew in December for the 59th consecutive month, say the nation's purchasing and supply executives in the latest **Non-Manufacturing ISM® Report On Business®**.

The NMI® registered 56.2 percent in December, 3.1 percentage points lower than the November reading of 59.3 percent. The Non-Manufacturing Business Activity Index decreased to 57.2 percent, which is 7.2 percentage points lower than the November reading of 64.4 percent. The New Orders Index registered 58.9 percent, 2.5 percentage points lower than the reading of 61.4 percent registered in November. The Employment Index decreased 0.7 percentage point to 56 percent from the November reading of 56.7 percent. The Prices Index decreased 4.9 percentage points from the November reading of 54.4 percent to 49.5 percent. Comments from respondents are mostly positive about business conditions and the overall economy for year-end.

The 12 non-manufacturing industries reporting growth in December — listed in order — are: Retail Trade; Accommodation & Food Services; Information; Management of Companies & Support Services; Professional, Scientific & Technical Services; Agriculture, Forestry, Fishing & Hunting; Health Care & Social Assistance; Wholesale Trade; Construction; Utilities; Finance & Insurance; and Public Administration. The five industries reporting contraction in December are: Arts, Entertainment & Recreation; Mining; Educational Services; Other Services*†; and Transportation & Warehousing. **ISM**

*†Other Services (services such as Equipment & Machinery Repairing; Promoting or Administering Religious Activities; Grantmaking; Advocacy; and Providing Dry-Cleaning & Laundry Services, Personal Care Services, Death Care Services, Pet Care Services, Photofinishing Services, Temporary Parking Services and Dating Services).

Commodities Reported

Commodities Up in Price: Beef (2); Beef Items (13); Cocoa; Coffee; Corn; Produce (2); Services Labor; and Software Maintenance.

Commodities Down in Price: #1 Diesel Fuel (4); #2 Diesel Fuel (5); Cheese; Chicken; Computer & Peripherals; Dairy; Fuel (3); Gasoline (6); Lumber (3); and Office Products/Supplies.

Commodities in Short Supply:

Medical IV Solutions (12) is the only commodity reported in short supply.



Note: The number of consecutive months the commodity is listed is indicated after each item.

*Reported as both up and down in price.

Global Trends

news in a changing world



Resources

Information in this report was gathered from the following sources.

1E

www.1e.com

Daymon Worldwide

www.daymon.com

Deloitte

www.deloitte.com/energy

Genpact

www.genpact.com

Nielsen

www.nielsen.com

US

United States

Cost reduction and compliance are among the most pressing challenges for CPOs, while CEOs rank growth trends as their highest priority, according to a global survey of 920 senior executives — of which 121 are procurement leaders. The survey by Genpact finds that 65 percent of CPOs list cost reduction as a top concern, although overall business challenges vary by industry. Supply chain executives in life science industries also report regulatory compliance and risk management as challenges, and those in the consumer goods industry rank agility, adaptability and customer satisfaction as top concerns. The CPOs also report that the improved use of technology could provide the biggest financial impact for their organizations. “These results highlight CPOs’ need and desire for effective, pragmatic transformation,” says Shantanu Ghosh, senior vice president and business leader for Genpact.

MX

Mexico

Recent Mexican energy reforms may help strengthen U.S. energy competitiveness at a time when many oil and gas professionals believe the United States could be oil self-sufficient in five to 10 years. Deloitte’s *2014 Oil and Gas Survey* notes that while many believe Mexican reforms will benefit large oil companies, two-thirds says liberalization of Mexico’s oil and gas industry is somewhat critical to help North America achieve energy self-sufficiency. “One under-reported huge opportunity in Mexico is in the build-out of mainstream infrastructure, which is a good opportunity in the short term, but exploration and production is a much larger opportunity in the longer term,” says Jorge Castilla, partner, Deloitte Consulting Mexico LLP.

UK

United Kingdom

More than US\$7 billion of software is not being used by organizations in the United Kingdom and the United States. An analysis by 1E of software deployed on 1.8 million desktops in 74 large companies across 13 industries finds that 28 percent of the software on desktops is unused (not used in the past 90 days) and 6 percent is rarely used (not used in the past 30 days). “Many organizations are acquiring and paying for much more software than they are using,” says Sumir Karayi, 1E CEO. If organizations gain better visibility into their software, they can better measure application use, reclaim unused or prohibited software, and redeploy licenses as needed, he says. The healthcare sector has the lowest amount of unused software at 20 percent, compared to the pharmaceutical industry, where 56 percent of all software deployed is unused.



CN

China

The growth of emerging markets will lead to a global rebalancing and shift of influence in retail, highlighting an industry that is becoming fragmented and increasingly focused on global e-commerce competition. That's one of seven retail trends cited in Daymon Worldwide's *Global Retail Trends Predictions for 2015 and Beyond*. The massive growth of the middle class in China and other emerging countries means that the balance of power is shifting. Consumers in China have money to spend, while the middle class in the U.S. is declining. The report cites the need for a clear understanding that different rules and cultural nuances require a more customized retail model to address local realities. "Retailers around the world are facing a seriously fragmented retail landscape, with consumers on every continent having more choices in terms of where and how they shop," says Andres Siefken, chief marketing officer at Daymon Worldwide.

ID

Indonesia

A Nielsen study finds that perceptions about private labels are "overwhelmingly favorable," with three-quarters of global respondents saying store-brand quality has improved over time. Store-brand value share is at or above 15 percent in developed regions, but below 10 percent in developing countries. Private-label growth is slow in Asia, with value share in Indonesia at 0.6 percent on the low end and 8.1 percent in Singapore on the high end. Nearly six in 10 respondents in Indonesia, 59 percent, believe they risk wasting money when trying new brands. "Asian shoppers are strongly brand-loyal, and retailers have not invested enough in private-label marketing programs to persuade shoppers to trust its quality," says Peter Gale, managing director of retailer services, Nielsen Asia-Pacific and Middle East.

2015 Outlook Positive

Supply management practitioners in both the manufacturing and non-manufacturing sectors are optimistic that 2015 will be better than 2014. Both sectors expect to see increased revenues in 15 of the 18 industries in the new year, according to the *December 2014 Semiannual Economic Forecast*. Expectations are for a continuation of the economic recovery that began in mid-2009, as indicated in the monthly *ISM® Report On Business®*.

Manufacturing. Purchasing and supply executives in the manufacturing sector have a positive outlook for their overall business prospects in both the first and second half of 2015. Survey respondents predict growth in both exports and imports this year. They also expect the U.S. dollar to strengthen against all major trading partners' currencies.

The following are some of the major manufacturing highlights:

- Production capacity increased 5.3 percent in 2014 and is expected to increase by 5.6 percent in 2015.
- Capital expenditures, a major driver of the U.S. economy, are expected to increase 3.7 percent in 2015, compared to 14.7 percent in 2014.
- Raw material pricing pressures are predicted to be low this year, although labor and benefit costs are expected to increase 3.2 percent.

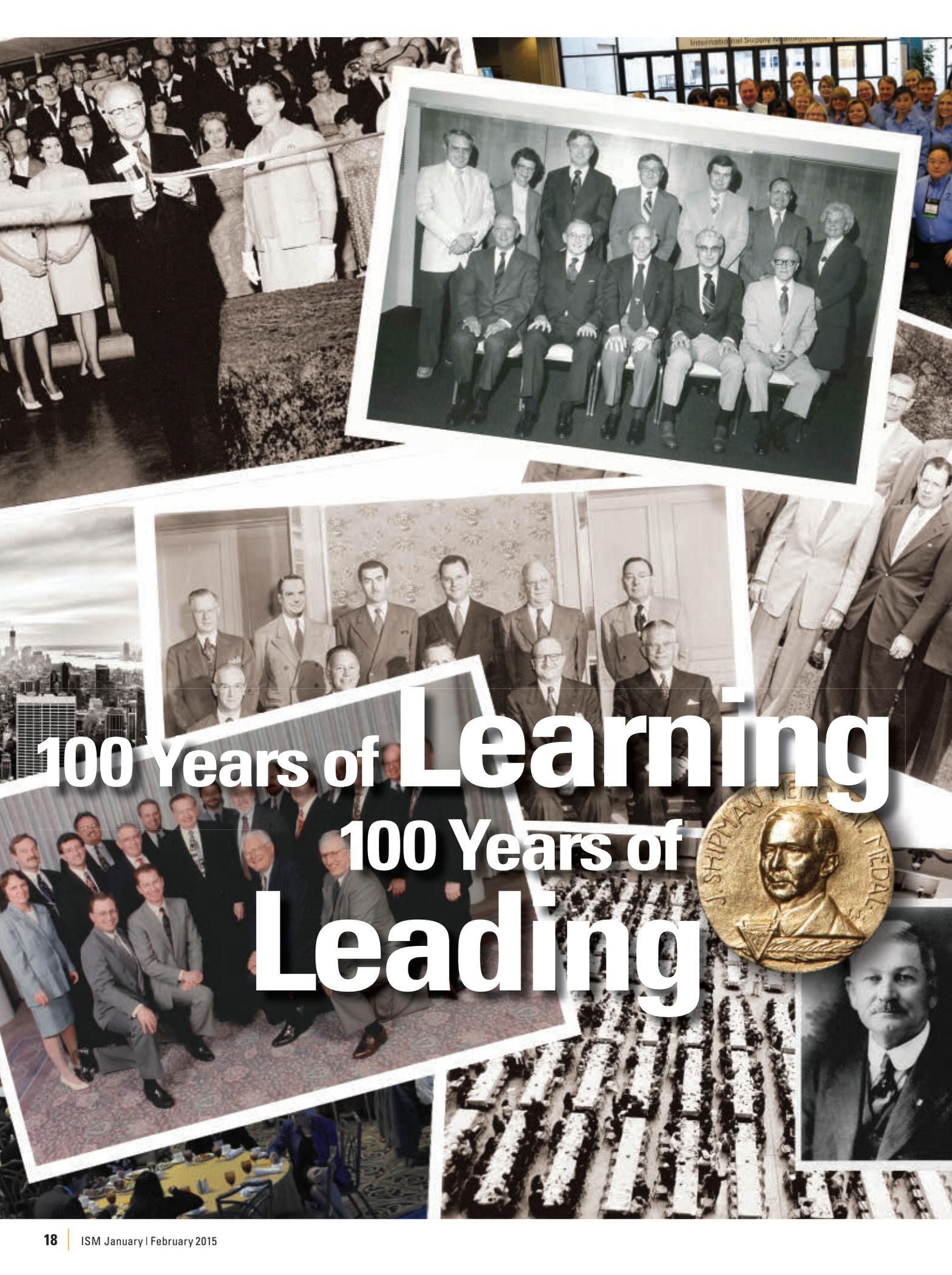
Non-manufacturing. Supply chain practitioners in the non-manufacturing sector have a higher level of optimism about the next 12 months than they had last December for 2014. They forecast their capacity to produce products and provide services will rise 4.3 percent during 2015, compared to 3.6 percent in 2014.

The following are some of the major non-manufacturing highlights:

- Capital expenditures are expected to increase 3.8 percent in 2015, compared to 3.3 percent in 2014.
- It's expected that non-manufacturing employment will increase 1.7 percent while labor and benefit costs are expected to increase 2.1 percent.
- Non-manufacturing revenues (nominal) are predicted to rise 10 percent this year, compared to 5.1 percent last year.

The complete *Semiannual Economic Forecast*, released December 9, 2014, can be found at www.ism.ws.

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100 Years of Learning 100 Years of Leading

January | February
COVER STORY

By Lisa Arnseth

ISM's First 4 Presidents



John R. Pels



E. L. McGrew



David D. Rankin



F. L. Kulow

Institute for Supply Management® (ISM®) celebrates its 100th year of supporting the ever-evolving and dynamic supply management profession. Read how, through lean times and prosperous periods, ISM remains steadfast in its mission to strengthen and promote the art of procurement for you, our members.

Sharing information and developing a network: that was the original objective of the National Association of Purchasing Agents (N.A.P.A.) when it was formed in 1915. One hundred years later, the profession has evolved from a tactical buying function to strategic supply management, and the association has undergone numerous changes to support its membership base. Today, Institute for Supply Management® (ISM®) has more than 45,000 members and is poised to expand its global presence in the coming years — a far cry from the group's humble beginnings, when approximately two dozen men met for N.A.P.A.'s first meeting in April 1915. While much has changed, the initial intent remains true: ISM has always been focused on promoting the field of procurement and supply chain management by sharing information, offering a targeted network and promoting the exchange of ideas for you, our members.

When *Thomas Register* salesman E. B. Hendricks helped spearhead the first official association of purchasing professionals in the New York area, it was a time when buyers rarely knew one another. In fact, companies

were apprehensive about allowing their buyers to engage with others for fear of giving away company secrets. In the book *The First Fifty Years of the N.A.P.A.*, published in 1965, Paul V. Farrell quotes Charles A. Steele (a later president of the N.A.P.A.) as saying, "Up until that time (1915) it had been a sort of unwritten rule that purchasers were one body of men who should not communicate with each other for fear that they might do the other fellow some good and themselves some harm."

According to Farrell, the notion of bringing procurement practitioners together began to develop around 1904, when a small group formed in Buffalo, New York. Other groups appeared here and there over the next decade in places like Boston and Detroit. The first true purchasing association affiliated with what is now ISM was officially formed in 1914, when the Purchasing Agents' Association of New York (PAA) launched in New York City. This group is now known as ISM—New York, Inc., and is the oldest ISM affiliate group. It wasn't long before discussions began about forming a national association.

Launching a national association in 1915 was no easy feat. At the time, the United States'



100 Years of Learning ... 100 Years of Leading

economic climate was unfavorable. Many citizens and businesses were not fans of President Woodrow Wilson's progressive policies. Taxes increased following the passage of the Sixteenth Amendment, which instituted the first income tax, and labor and union issues were causing tension even as assembly-line manufacturing was just beginning to develop. While the U.S. had not yet entered World War I, Farrell says in *Fifty Years of Purchasing* (published in 1954), there was an air of uncertainty about the future. When fears arose among the members of the PAA that a rival association might be started, "a certain few" of the New York members acted quickly to create "an entirely new association under the original name."

A Place for Purchasers Only

The state of New York granted a charter to the new N.A.P.A. in March 1915. The first meeting took place on April 29, 1915, in New York, and officers were elected. All but Hendricks were purchasing agents. It took much discussion and work, but the bylaws and rules of the organization quickly took shape. One rule was decided immediately: Membership must be limited to bona fide purchasing agents only. This was to prevent salesmen from joining the membership ranks, to keep the focus on developing efficient purchasing methods and practices and

advancing the purchasing profession in a fair and neutral environment. The association held its first conference in New York in 1915, with approximately 100 members in attendance.

By 1917, the N.A.P.A. took its first (and far from last) action to show how its members could contribute to the country's welfare during national emergencies. N.A.P.A. formally offered President Wilson its services in con-

of the purchasing situation during this war, consider this: Per capita government expenditures were at US\$7.20 in 1916. By the peak spending year of 1919, the per capita rate had ballooned to \$177.16.)

1917 was an important year for N.A.P.A. in another area: education. Association leaders knew that, with the increased visibility of the power of purchasing, agents would need specialized training. In October of that year, New York University's School of Commerce, Accounts and Finance established the first course in purchasing. This was the beginning of the association's strong dedication to supply management education. In just a few decades, there were purchasing courses in more than 90 universities around the U.S. and Canada.

Next, N.A.P.A. extended its influence by forming relationships with a number of government and industry associations. In the 1920s, N.A.P.A. established ties to groups such as the American Society of Mechanical Engineers, the American Engineering Standards Committee (later known as the American Standards Association) and the American Society for Testing Materials. These partnerships proved that those in procurement could provide input and work cooperatively to create and adopt major policies and business processes, some of the earliest proof of the inherently strategic

1916

The first ISM affiliates were formed in New York, Pittsburgh and Columbus, Ohio.

nection with buying materials needed as the country entered into "the Great War." Government officials and many businessmen who were asked to come to Washington, D.C., to aid in the war effort did not all grasp the problems and potential that existed in the purchasing field, according to Farrell in *Fifty Years of Purchasing*: "But the sheer weight of federal expenditures — representing the greatest buying effort in history to that time — forced upon them awareness of the need for organized, intelligent buying if the war was to be won," he wrote. (To gain a sense

Institute for Supply Management® The First 100 Years



1910s

1915
ISM is founded in New York as the National Association of Purchasing Agents (N.A.P.A.) with the goals to impress the business world with the importance of the purchasing function to economic well-being

and encourage purchasing people to improve themselves and make greater contributions to the companies they serve.

1917
New York University's School of Commerce, Accounts and

Finance establishes a course in purchasing.

1917
N.A.P.A. offers its services to U.S. President Woodrow Wilson in connection with buying materials for use in the war emergency.



1918
N.A.P.A. is already discussing a code of ethics for the profession.



nature of the profession that is commonplace today.

In keeping with the goal of bringing cohesiveness and professionalism to purchasing processes, N.A.P.A.'s ethics committee created the *Purchasing Agent's Creed*, which eventually evolved into the *Principles and Standards of Ethical Supply Management Conduct* in use today. When it was adopted in 1923, the *Purchasing Agent's Creed* was well-respected and held in great esteem by the business world. In fact, the Federal Trade Commission called it "a complete formula for all the ills of the industry."

A few other milestones occurred during the 1920s. This decade also brought the inception of the first commodity committees for lumber, fuel, paper and steel. These committees were comprised of N.A.P.A. members with data and experience in these industries. In 1925, N.A.P.A. created local associations to group members into districts within the U.S. In addition, in 1928, the *N.A.P.A. Bulletin* became the association's official publication, replacing *The Purchaser*.

Through Economic Turbulence and Times of War

Following a tense period at the end of the decade when some

members expressed dissatisfaction over membership dues increases (from \$10 to \$15, approved at the national convention in 1928), the N.A.P.A. enjoyed a period of relative stability. According to Farrell, one N.A.P.A. official pointed out "how fortunate it was that the dues increase was approved before the great 'crash' of 1929. 'Everyone was on top of the world in early 1929,' he said, 'but we would never have got it across a few months later. And it was the increased dues that helped to keep us going through the bad years — because with them we were able to hire ... consultants in economics, finance, and the valuable information they offered helped us to keep our membership up during the dark days of the early thirties.'"

The N.A.P.A. Business Survey Committee was formed in 1931 and came to be nationally recognized by businessmen and journalists as an unbiased source for data and forecasts of economic conditions. The association has been collecting commodity, supply and pricing information from members through formal polls and surveys since 1923, and this continues today in the form of the Manufacturing ISM® *Report On Business*® and Non-Manufacturing ISM® *Report On Business*®.

The highlight of association achievements in the 1930s, according to Farrell, was the establishment of the J. Shipman Medal Award in 1931. The award was named in honor of Johnson Shipman, a purchasing agent from the Neptune Meter Company in New York who served 10 consecutive terms as chairman of the Purchasing Agents Association of New York's executive committee and who was known for his passion and influence in advancing the field of purchasing. The first J. Shipman Award was conferred on L. F. Boffey, one of the original founding members of the N.A.P.A.

When World War II became a global crisis in the 1940s, the N.A.P.A. sent representatives to Washington, D.C., to serve in the national defense program even before the U.S. officially entered the war.

"Sound procurement procedure must be the cornerstone of a sound defense program if we are to get real mileage out of the hundreds of millions of dollars to be spent," said George Renard in the *N.A.P.A. Bulletin*. Over the duration of the war effort, N.A.P.A.'s members were continuously updated on new government regulations and contract requirements as the association's

1920^s

1920

Commodity committees on fuel, lumber, paper and steel are appointed to supply members with data on their respective fields.

1923

N.A.P.A.'s new ethics committee creates the *Principles and Standards of Purchasing Practice*.

1925

Local associations are grouped into official N.A.P.A. districts throughout the U.S.



1931

The J. Shipman Gold Medal Award is established.

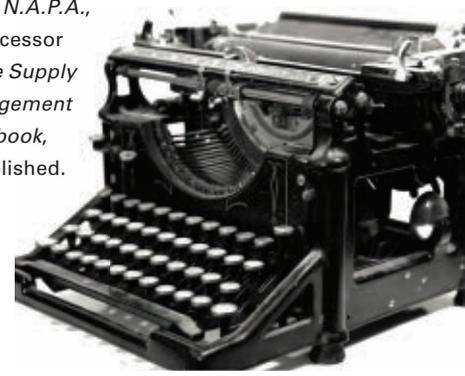
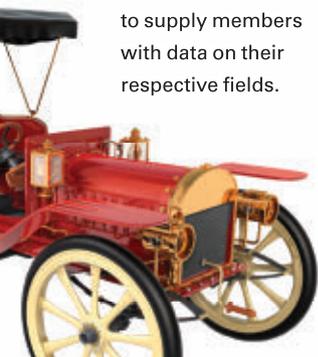
1930^s

1931

The N.A.P.A. Business Survey Committee is nationally known and relied on by government agencies, businessmen, and economists for regular analysis and forecast of economic conditions.

1939

The Handbook of Purchasing Policies and Procedures of the N.A.P.A., predecessor of *The Supply Management Handbook*, is published.





100 Years of Learning ... 100 Years of Leading

leaders worked with government and industry officials to set price guidelines for crucial commodities and materials, which were often unavailable or in very short supply.

By 1946, the war was coming to an end as the country moved into a new economic phase. Purchasing professionals were looked to for their expertise and ability to investigate sources, price structures, make-or-buy possibilities, and substitute materials as business in the U.S. began to shift away from wartime restrictions. Through its own publications and the dissemination of information to universities and other higher-learning organizations, N.A.P.A. ensured its commodity reports, consultant services, business surveys and conferences were up-to-date and available.

Education efforts for purchasing agents were of particular concern by 1948, as it was apparent the wartime purchasing procedures and unique situations had affected the training of both novices and veterans. The association knew it was important to elevate the basic principles of good purchasing again and ensure the knowledge and reputation of supply professionals continued to be held in high regard. N.A.P.A. began a wide-ranging educational program to bring the focus back to solid and proven purchasing principles, as per its basic

mission as an organization. An education committee was officially established under N.A.P.A. chairman (1947 to 1952) George W. Aljian and issued about a dozen publications, including *Where To Find It – A Bibliography of Industrial Purchasing*.

The importance of continuing education in the supply management profession cannot be understated,

2014

US\$103,415 —

Average salary for a CPSM®
(2014 ISM Salary Survey)

says 2005 J. Shipman Gold Medal Award recipient Robert A. Kemp, Ph.D., CPSM. “The field of supply management is constantly changing to react to and reflect the needs of the business world,” says Kemp, who was also recognized as the John H. Hoagland Award recipient in 2012. “ISM has always had a commitment to education, which is essential because the more you study, the more you can accomplish and make an impact. I hope to see education continue to be a key element for the association in the next 100 years.”

The Prestige of Purchasing Grows

By the 1950s, N.A.P.A.’s monthly business survey report was growing in influence, regularly cited by leading newspapers and trade journals to measure the pulse of business. Between the increased publicity of its *Report On Business*® and its reputation as a source for basic education and knowledge of the purchasing profession, the association was well-respected among government officials and industry leaders. Membership grew to more than 15,000 members in 90 local associations by 1950. Purchasing was beginning to be seen as more than a service function for companies; it was being viewed as a “profit-making activity,” according to a well-known keynote address by John A. Hill at the 1953 convention.

In his speech, Hill, president of Air Reduction Company, said a purchasing revolution was under way and that five concepts were now the basis of modern purchasing. They were:

- 1) Purchasing is not a service function but a profit-making activity.
- 2) Where materials are a large part of the total cost, procurement is best handled as a separate and distinct function reporting directly to the chief executive or to some other top-level operating executive.
- 3) The real purchasing job starts long before the specifications or

1940s



World War II Era

N.A.P.A. keeps members thoroughly informed on burgeoning government regulations and contract requirements during the war effort and works with government and industry to

establish guidelines for fair prices on crucial materials.

1948

N.A.P.A. begins a wide-ranging educational program to elevate the knowledge and reputation of purchasers after the war.



1950s

1950

The monthly *Report On Business*® is increasingly used by leading newspapers and trade journals to measure the pulse of business.

1956

N.A.P.A. joins the first informal,

tentative talks on an international organization of purchasing executives, which eventually leads to the International Federation of Purchasing and Supply Management (IFPSM).



- requisitions are written.
- 4) Purchasing needs and deserves highly trained, competent personnel on par with any other department of business.
 - 5) Purchasing should be represented in top operating councils.

It was logical that the next phase for the purchasing professional was to expand the reach of influence outside of the U.S. In 1956, N.A.P.A. joined the first discussions on the development of an international organization of purchasing professionals. In 1961, those efforts lead to an international federation that eventually became the International Federation of Purchasing and Supply Management (IFPSM). In 1974, N.A.P.A. officially joined the IFPSM.

In the 1960s, the prestige of the *Report On Business*® increased when it was first named as a leading business indicator in a monthly report issued in 1961 by the U.S. Bureau of Labor Statistics. And the N.A.P.A. received its first televised recognition by a U.S. president in 1964, when President Lyndon Johnson referred to the *Report On Business*® during a news conference on the economic health of the nation.

It was also around 1961 that the first talk began of changing the name of the

association to something the members believed was more reflective of purchasing's evolving role in business and industry. The primary concern at the time was more pressing than a simple name change. The professional development leadership committees began a major push to develop a new image of the profession in the eyes of the public, educators, management and researchers. A primary focus of this initiative was establishing doctoral fellowships and faculty internships in purchasing, and high-level management courses for purchasing executives.

In addition, the first purchasing management seminars were held at Harvard and Stanford universities in September 1962. These seminars continued for many years, and today have expanded to include the full roster of educational seminars offered by ISM. Academics were encouraged to contribute research work to the new *Journal of Purchasing* (now the *Journal of Supply Chain Management*) when it was launched in 1965.

Once the association's educational projects and publications were well under way, the members voted in June 1968 to change the name of the association to National Association of Purchasing

Management, Inc. (NAPM).

On the Cutting Edge of Change

As the next decade began, NAPM's core focus remained preparing its members to deal with a changing world as international markets opened up and technology played new roles in how business was conducted. NAPM introduced new programs on developing managerial attitudes and skills, purchasing in foreign markets with special emphasis on negotiation, legal aspects of supply management, technology, and supply's role in corporate planning and strategy.

It was in 1974 when NAPM unveiled its first professional, non-degree certification: the Certified Purchasing Manager (C.P.M.). It also developed a training program in 1976 to cover a vast range of topics including but not limited to finance, inventory control, data processing, the Uniform Commercial Code, ethics, contracts and value engineering. An educational program geared for senior purchasing officers was also established in the mid-1970s — these were meetings where top procurement officers could discuss issues and exchange ideas on purchasing beyond day-to-day operations.



1960s

1961
The *Report On Business*® is listed as one of the leading business indicators in a monthly report by the U.S. Bureau of Labor Statistics.

1964
U.S. President Lyndon Johnson

refers to the *Report On Business*® in a nationally televised news conference.

1961
N.A.P.A. fortifies its focus on developing a new image of the purchasing profession in the eyes of the public, educators,

management and purchasing executives themselves. The project's core encourages professional educators, researchers and writers to expand the frontiers of purchasing knowledge and establishes faculty internships in purchasing and high-level

management courses for purchasing executives.

Mid-'60s
N.A.P.A. works with the Junior Achievement Program to help provide American teenagers with practical experience in business.

1965
The *Journal of Purchasing* (now the *Journal of Supply Chain Management*) publishes its first issue.

1968
The association becomes the National

Association of Purchasing Management, Inc. (NAPM).





100 Years of Learning ... 100 Years of Leading

Up until this point in the association's history, some of the official language was written with the assumption that only men were procurement professionals. However, by the 1970s, participation of women in the association had significantly increased. In 1978, Betty McDonald, C.P.M., and May Warzocha, C.P.M., were elected to the NAPM Board of Directors. In 1979, Warzocha was named president, the first woman to hold that post.

Long-time member Angie Boggs, C.P.M., joined NAPM in the late 1970s, when she was only one of two women in the Ohio NAPM affiliate group, the other being Bonny Hinkle-Rickerson. Both women became active in the affiliate and later District VI, in Ohio, and Boggs went on to become district director. "I have wonderful memories of my activities as a leader in the affiliates, and believe those experiences made me a stronger leader in my company," she says. Today, Boggs says the affiliate has a 50-50 gender split, which is just slightly higher than the national average.

The affiliates have long been supportive of women in the profession, says Ruth L. King. King held senior leadership positions with the District II affiliate, in Texas, and the ISM Southwest Forum for many years, and says she always felt accepted by her male peers in the affiliate

district council meetings and among the national association's Board of Directors. "Women have been elected to leadership roles at all levels of ISM, and have served with dignity, excellence and gained the respect of all," she says.

Throughout the turbulent 1980s, NAPM continued to produce innovative programs and offer support and services to its members and the business community at large. The association moved to new headquarters in Oradell, New Jersey, in 1982, complete with a new education center and enlarged capacity for its ever-growing inventory of educational materials. Training efforts continued to expand in 1985, when NAPM began offering in-house training programs tailored to the specific needs of companies.

As its membership numbers grew, the association became more dedicated to innovation and procurement research. The NAPM Board of Directors formally approved the establishment of the Center for Advanced Purchasing Studies (CAPS), known today as CAPS Research. As a joint collaboration with Arizona State University (ASU), the purpose of CAPS was to create a free-standing institute focused on improving purchasing's effectiveness and efficiency to advance overall purchasing capability, and develop a place where the focus could be on alternatives, philosophies and solutions to

purchasing and materials management problems in the future. CAPS began operations in Tempe, Arizona, in 1987.

The inception of CAPS was important for the future of the organization, says Harold E. Fearon, Ph.D., CPSM. Fearon was an ASU professor for 28 years and the first recipient of the John H. Hoagland Award for Distinguished Service in 2010. Fearon, winner of the 1992 J. Shipman Award Gold Medal, was instrumental in developing CAPS.

"The viewpoint was that if we were to be a truly professional organization, we needed a research arm to support us. Having a freestanding research institute sets ISM apart from other associations," says Fearon. "Companies can take part in the research studies and not only help shape the future of the profession based on their experiences and sharing of best practices, but learn and develop their own supply management organizations further using knowledge and data they get from the completed research."

Not long after CAPS was established, the NAPM relocated cross-country to Tempe, Arizona, to set up headquarters alongside CAPS in the ASU Research Park. This location was ideal because it allowed NAPM to work more closely with a university that offered a purchasing degree and a network of university professors and student connections. It was also in 1987



1970s

1974
NAPM introduces the Certified Purchasing Manager (C.P.M.).

Mid-'70s
NAPM launches an educational program for senior purchasing officers to discuss issues and exchange ideas on purchasing beyond day-to-day departmental operations.

1978
As the participation of women increases in the association, Betty McDonald, C.P.M., and May Warzocha, C.P.M., are elected to the NAPM Board of Directors. In 1979, Warzocha is elected as president.

1980s

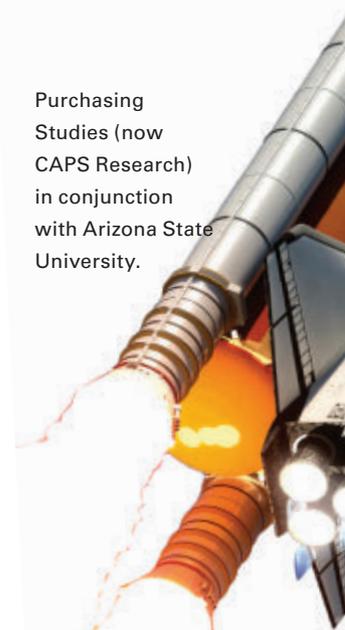
1982
NAPM headquarters moves from New York to Oradell, New Jersey.

1984
A computer version of the C.P.M. is introduced.

1986
May Warzocha, C.P.M., in 1986 — first woman to win the J. Shipman Gold Medal Award

1987
NAPM moves from Oradell, New Jersey, to Tempe, Arizona, and develops the Center for Advanced

Purchasing Studies (now CAPS Research) in conjunction with Arizona State University.



that NAPM's Minority Business Development Group was launched to help members successfully implement minority supplier programs.

NAPM's official publications evolved in the 1980s, as well, with the launch of *NAPM Insights*, the association's new magazine. The *Report On Business*® continued to expand its worldwide reputation as an accurate and timely indicator of business conditions, with the association making some enhancements and improvements.

The Purchasing Manager's Index (PMI®) was created in 1982, and by 1988 it incorporated diffusion indexes and the buying policy and PMI® in graphic format. The U.S. Department of Commerce selected the NAPM supplier deliveries data for inclusion as a component of the department's highly regarded Index of Leading Indicators, and Alan Greenspan, Ph.D., chair of the Board of Governors of the Federal Reserve system, highly praised the value of the *Report* on a number of occasions. The PMI® (and later the NMI® index established in January 2008) has become one of the world's most important leading economic indicators.

"This is a huge accomplishment in its own right, but also underscores the unique perspective our

profession has on the intersection of the supply and demand curves," says Thomas W. Derry, chief executive officer of ISM. "No other corporate function is as sensitive to minute shifts in the balance of supply and demand as supply management."

As the Internet began changing the way we do business in the 1990s, NAPM developed and launched its first online courses in 1996. The magazine *NAPM Insights* was renamed *Purchasing Today*. And a publication featuring listings of educational institutions offering supply management-related degree

of more than 370 purchasing and supply management professionals in non-manufacturing sectors.

The term "supply management" was firmly taking hold in the profession as the 21st century began. In 2002, the association changed its name to Institute for Supply Management® (ISM®) to reflect the field's complexities and growing international recognition and responsibilities. Paul Novak, CPSM, C.P.M., A.P.P., MCIPS, was CEO of ISM for 15 years before his retirement in 2012, and played a key role in the name change.

"Our members were leaders in their companies, and they were clearly adding value beyond purchasing. The term supply management reflected the spectrum of what procurement professionals now do on a regular basis," says Novak. "It was more than a change in name, however. It was a change in trust, meaning companies placed new trust in supply management professionals to have influence and power. Companies came to realize spend can be maximized. If you save a dollar in expense, management has an opportunity to redeploy that dollar in a way that benefits the company. Supply management adds value and resources that might not have been there before, and ISM

1950

Highest Manufacturing PMI®
July 1950, 77.5%

programs, certificate programs and distance-learning programs grew into a yearly guide that's known today as *Supply IN Demand*. In 1998, NAPM reached 30,000 certified C.P.M.s, the same year the *Report On Business*® expanded to develop the Non-Manufacturing ISM® *Report On Business*®. Released on the third business day of each month, this report shows data culled from surveys

1990s

1987

NAPM establishes the Minority Business Development Group.

1988

The Purchasing Manager's Index (PMI®) is created in conjunction with the U.S. Department of Commerce.

1990

The first issue of *Supply IN Demand* is published.

1996

NAPM develops and launches its first online educational courses.

1998

The 30,000th C.P.M. is awarded.

1998

The Non-Manufacturing *Report On Business*® is developed.





100 Years of Learning ... 100 Years of Leading

wanted to reflect this in our name and our governance.”

The new name also meant that the association’s official magazine’s title needed to change. Effective January 2002, *Purchasing Today* became *Inside Supply Management*®, with expanded content to cover more areas of the strategic nature of the supply management function.

Frameworks for Excellence

In 2003, the new R. Gene Richter Scholarship Program was initiated to honor the professional contributions of R. Gene Richter, known as an innovator and leader in the field. Then in 2005, ISM launched the ISM R. Gene Richter Awards for Leadership and Innovation in Supply Management. The award was renamed the Institute for Supply Management® – Michigan State University Awards for Excellence in Supply Management in 2011, and is designed to identify and share leadership and innovation in the supply management practice and provide recognition to supply management departments that have contributed on a strategic level to their organizations and enhanced the profession in the eyes of senior leadership. From this point on, supply management professionals were increasingly earning seats at the corporate table, influencing key decisions and providing innovative solutions and opportunities to their companies.

Social responsibility and diversity became priorities for ISM in 2003 with the launch of the first Black Executive Supply Management Summit, and in 2004 with the development of ISM’s *Principles of Social Responsibility*. The *Principles* are notable for being the first framework for social responsibility in the supply management profession — they provide definitions and behaviors tailored to the profession in nine areas: community; diversity and inclusiveness — supply base; diversity and inclusiveness — workforce; environment; ethics and business conduct;

1980

Lowest Manufacturing PMI®
May 1980, 29.4%

financial responsibility; human rights; health and safety; and sustainability. These *Principles* are updated on an ongoing basis to reflect the measurement tools, processes and best practices that emerge as the profession becomes more adept at handling these key strategic areas.

Members look to ISM for insights regarding their professional field and career opportunities. In 2006, ISM conducted its first salary survey of the profession, which is now an annual

occurrence. The report yields information on salary, bonuses and stock options through multiple breakdowns including job title, years of experience, education level, certification status and buying responsibility, and is prominently featured in the May issue of *Inside Supply Management*® each year.

New offerings continued to be unveiled throughout the decade, including the Center for Strategic Supply Leadership (CSSL) in conjunction with global management consulting firm A.T. Kearney in 2003, and two additional diversity summits to reflect the member base: the Hispanic Executive Supply Management summit, first held in 2007, and the Women Executive Supply Management Summit, first held in 2008.

In 2008, ISM launched the Certified Professional in Supply Management® (CPSM®) certification program. Those who attain a CPSM® represent the highest degree of professional competencies in supply management, and candidates throughout the world — from Mexico to Korea — have achieved the designation. To date, 9,200 individuals have earned their CPSM® certification, and 47 percent of those are located outside the U.S.

Expanding and Evolving Into the Next Century

In recent years, ISM has continued to evolve along with the

2000s



2002

NAPM changes its name to Institute for Supply Management® (ISM®).

2003

The R. Gene Richter Scholarship Program is launched.

2003

ISM and A.T. Kearney create the Center for Strategic Supply Leadership.

2003

ISM on TV — “The West Wing” (season 5, episode 1)
Ed: *New housing sales dropped 1.2 percent, nonresidential*

construction was down 2.6 percent. And, out of nowhere, the ISM index fell below 50.
Josh: *But duct tape futures are up, right?*

supply management profession itself. In 2011, the ISM Corporate Program was developed, along with the Certified Professional in Supplier Diversity® (CPSD™) certification program. In addition, ISM published the *Sustainability and Social Responsibility Handbook* that same year. The handbook was co-authored by the ISM Committee on Sustainability and Social Responsibility and includes metrics, performance criteria and case studies from a range of companies.

As the organization has evolved over the past century, it's clear that the supply management profession has evolved right alongside it. Uldis Sipols, vice president of procurement for Sonoco in Hartsville, South Carolina, says that procurement has always had a chance to prove its worth during difficult economic times or periods, when certain materials might be in short supply, and it will continue to be that way as long as professionals strive to continuously improve their skills. And education and research-based organizations like ISM are key to the profession's evolution. "I believe the profession has gained sophistication in recent years, especially as companies learned more about the profession from organizations like ISM, and from benchmarking themselves," says Sipols.

Reaching the 100-year anniversary is a significant achievement, says Novak. "Not every organization gets to be 100 years old and stay relevant and vibrant along the way, especially in the not-for-profit world," he says. "But the association made it through the Great Depression, and later the economic challenges of 2001 and 2008, proving its resilience and ability to handle whatever might come in the future."

Going forward into the next century of supply management and procurement progress, ISM has ambitious plans to expand its membership base around the world, and continue offering state-of-the-art services and opportunities for professional growth to equip tomorrow's leaders for success. CEO Derry says in the coming years, ISM will become a truly multinational organization with influence in markets around the world. "As supply management issues continue to move to the top of the public policy agenda, ISM will be the sought-after authority on how proposed policy changes will affect the flow of trade, prosperity in emerging markets and building a more sustainable world," Derry states. **ISM**

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Design of the Times

From *The Purchasing Agent* to *Inside Supply Management*®, ISM's flagship publication has sailed through a century of changes not only in the profession, but also in its look and feel. Here's a quick look at the magazine's many names over the years:

- **1916**
The Purchasing Agent
- **1925**
Purchaser
- **1939**
The Bulletin of the N.A.P.A.
- **1990**
NAPM Insights
- **1995**
Purchasing Today
- **2001**
Inside Supply Management®



9,200
Number of CPSM®s to date

2004
The ISM *Principles of Social Responsibility* are published.

2005
The first ISM R. Gene Richter Awards for Leadership and Innovation in Supply Management are awarded.

2006
ISM conducts its first salary survey of the profession.

2008
The Certified Professional in Supply Management® (CPSM®) launches.

2011
The ISM Corporate Program is developed.

2011
ISM announces the Certified Professional in Supplier Diversity® (CPSD™).

2011
ISM publishes the *Sustainability and Social Responsibility Handbook*.

2015
ISM's Centennial Conference will be held in Phoenix, May 3-6, 2015.





100 Years of Learning ...
100 Years of Leading

Then &

Supply management practitioners and their companies have experienced many trends and times of prosperity and strife. Here are a few areas with the greatest influence on the profession.

Now

By Mary Siegfried

TECHNOLOGY

Integrating With Technology

World wars, labor strikes, economic turmoil, and a constantly changing consumer and business landscape have all helped shape the supply management profession over the years. But probably no single event or trend has played a greater role in molding the profession into what it is today than modern technology.

As electronic communication and commerce took hold in the not-so-distant past, supply chain processes were streamlined, communications moved at the speed of a keystroke and information was shared around the world on devices most of us couldn't envision just 10 years ago. Technology has forever changed the face of supply management, and will continue to do so as tech-savvy young practitioners begin to make their mark on the profession.

Technology gained momentum in supply management in the mid-to-late 1990s with the use of electronic communications (at that time, email), recalls Andrew Skaff, vice president of supply chain at Republic Airways Holding Co. Inc., in Indianapolis. What we now take for granted as a basic business tool was a major step forward in using

technology to improve communications.

In July 1994, Skaff, then a buyer at America West Airlines in Phoenix, wrote an article for *NAPM Insights* magazine headlined *Getting On-Line with Electronic Mail*. In the article, he outlined how electronic communications worked and encouraged ISM members to "establish e-mail with your key suppliers to tighten the links in your supply chain." He cited supporting data from the Electronic Mail Foundation — email users would grow from 8.9 million in 1992 to a projected 25 million in 1995.

The numbers may have wowed ISM members more than 20 years ago, but few would now be surprised by a report from The Radicati Group in Palo Alto, California, which says more than 100 billion business emails were sent and received daily in 2013. Business email accounts totaled 929 million mailboxes in 2013 and are expected to reach more than 1.1 billion by the end of 2017, the report finds.

"It's amazing to look back and find that something as simple as communicating via email was a big step," Skaff says. "But it did feel like a big change at the time." He also remembers that in some companies not everyone



had access to email when it first rolled out, resulting in “email envy” within departments.

While email improved communications, the Internet changed the way business was conducted, Skaff says. “The Internet offered opportunities to share information and create portals for both the buying and selling side of the business,” he adds. “It was probably the biggest step forward that technology has offered to supply management.”

Supply management practitioners were eager to explore where this new “information superhighway” would lead. Before long, Internet access allowed organizations a conduit to electronically place purchase orders, check order status, make electronic inquiries and transmit payment. Skaff laughs as he remembers conducting business by printing out purchase orders — in triplicate, of course — waiting for U.S.-mail-delivered responses, playing phone tag and reviewing RFP responses bound in three-ring binders.

The history of technology’s impact on businesses and their supply chains easily can be traced back 100 years, with the installation in 1913 of the first moving assembly line for an entire automobile by Henry Ford. Analytics and optimization firm OPS Rules created a time line of supply chain innovations through the years, starting with the assembly line, and many are tied to technology. Some technology highlights from the time line include:

- **EDI.** It signaled the capability of computer systems to transfer data to other computer systems (1950s).
- **Universal Product Code (UPC).** It identified specific SKUs by bar code (1970s).
- **ERP.** It reflected the evolution of application integration beyond manufacturing (1980s).
- **FedEx tracking system.** Computerized tracking system that provided near real-time information

about package delivery (1985).

- **Rise of PC and Internet.** Allowed development of decision-support systems for the supply chain on PCs, and collaboration among supply chain partners (1990s).
- **RFID and track-and-trace solutions.** Code-carrying technology to enable non-line-of-sight reading (2000s).

Skaff says technology has “compressed time” in the business world today. “Technology has created a benefit by compressing all elements of supply chain transactions, which include internal and external lead times, order placement and payment streams,” he says. “Technology has helped supply chain practitioners save time. Now it’s time that’s the valuable resource,” Skaff adds.

Supply chain practitioners can more efficiently analyze complex business projects, Skaff says, freeing them up to identify strategic opportunities. But with the power of technology comes responsibility. “Once we have the ability to understand big data and the knowledge it provides, now we have to act,” he stresses. “Nothing is worse than if you have access to all this data and information and you don’t formulate an action plan.”

It’s hard to tell what the future will bring, but Skaff expects the trend to accessing more information on hand-held devices will continue, even with some dashboarding functions on smartphones.

“When it comes to today’s technology, velocity is key as well as the value proposition it offers, not only the supply chain, but commerce in general,” Skaff says. “It has been the economic engine for everything and will continue to drive change. Supply management should continue to embrace and leverage technology, but maintain positive relationships with supplier and business partners, never forgetting the human element.” **ISM**



100 Years of Learning ...
100 Years of Leading

Then & Now

GLOBALIZATION

Embracing a Global Landscape

On his first international trip as a supply management practitioner, Tony Noe, CPSM, CPSD, C.P.M., CIRM, thought it would be such a rare occasion to travel overseas for business that he made sure to pack his camera for the trip. Forty years and more than 30 countries later, he still vividly recalls how exciting it was to talk with his European counterparts and learn firsthand the role culture plays in negotiations.

Like many supply chain professionals at the time, Noe didn't realize just how far the global marketplace would expand — requiring supply managers all over the world to have the skills to conduct business in Minneapolis as well as Mumbai.

"Global growth started when the U.S. dollar was strong and global markets really opened up, allowing supply managers to shop around the world for items that were labor-intensive," says Noe, senior strategic sourcing/procurement consultant for Resources Global Professionals in Roanoke, Texas. "The initial push to go overseas was for inexpensive labor, and to an extent, it still is today."

But as global freight costs and low-cost-country wages trend upward, the business and sourcing landscape changes constantly. Noe has lived with change throughout his career at companies such as Spectrum Brands in St. Louis, Macklanburg-Duncan Company in Oklahoma City and Fram/Bendix/Autolite in Providence, Rhode Island. He says supply chain practitioners first began sourcing and setting up operations in Japan for low-cost labor, then they turned to Korea, Taiwan and

mainland China. Noe says currently India is showing "strong capabilities" for manufacturing, while Vietnam and other Southeast Asian countries also are becoming part of the global mix. "And I fully believe Africa will be the next major low-cost move," he predicts. "Like India, they have to deal with infrastructure issues, but China is investing heavily in eastern Africa, so they see it, as well."

One lesson supply management professionals have learned through the years is that global business is not merely about location. "Being global isn't defined by the number of markets a company operates in, or the percentage of top-line dollars generated from operations around the world," explains Matthew B. Myers, Ph.D., dean of the Farmer School of Business at Miami University in Oxford, Ohio. In a December 2011 article for *Inside Supply Management*[®] he noted, "Being a global company involves understanding the intricacies that make markets different, and providing opportunities of arbitrage and differentiation not enjoyed by competitors. In reality, the best global companies have regional strategies because the world is not flat."

Many companies have a global strategy not simply because they want to source or manufacture in a country, but because they want to be players in the global marketplace, to serve customers in regional markets throughout Asia, Europe or South America.

Noe says a global focus has changed the face of business, the supply management profession and emerging countries around the world. "When American

procurement practitioners started going to different countries to develop markets and sources, we brought with us success,” he says. “Hong Kong is an example. It is not competitive anymore for low-labor costs but it has become a major, modern services hub. They saw what could be done, what we had, and they wanted it, too.”

He also believes procurement professionals should allow their conscience to play a part in sourcing and business decisions. If a supply chain practitioner visits an operation and observes unsafe working conditions or the use of workers under the age of 18, he or she just doesn’t do business with that company, Noe says. “That’s forcing those operations to understand better business practices and to make changes.”

A worldwide marketplace also means a flood in Thailand or a volcanic eruption in Iceland can play havoc for a company no matter where it’s based. Global risk issues have elevated the supply management profession, Noe believes. “Such events offer an opportunity to talk with upper management and explain how procurement can help the company achieve its goals. We can make it clear that the whole concept of a solid supply chain is to address and plan for risk,” he says.

Throughout the years, procurement professionals have had to develop skills to meet changing business needs. The emphasis on international business now requires upgraded skills in risk management, inventory

planning, currency management, and supplier relationship and development, as well as soft skills to understand complex cultural differences, Noe says. As his career expanded into the global arena, he says he found one of the most important skills was the ability to develop supplier capabilities.

“We have to be teachers, trainers and professional development leaders to worldwide suppliers,” he explains. “A practitioner who can’t explain JIT and how it works to a supplier in another country will have a hard time getting the supplier to understand why he or she wants shipments scheduled in a certain way.”

He adds, “We have the responsibility to teach business partners the skills that we may take for granted. And we have to constantly be there for them — conducting spot inspections, checking products and getting suppliers involved in the process so they understand the results we want.”

There is little doubt the global focus of business has reshaped the supply management profession and will continue to do so for many years. “Those who have been successful in the global marketplace have to elevate their game, learn new skills and adapt new knowledge to the profession,” Noe says. “And the emphasis on global business and low-cost markets is going to continue, because one thing is clear in the international marketplace — the dollar speaks loudly.” **ISM**



100 Years of Learning ...
100 Years of Leading

Then & Now

ECONOMICS

Adapting to Changing Times

"The importance of supply management varies in direct proportion to how difficult the economy is." That quote from a professor at Bowling Green State University has stayed with Norbert Ore, CPSM, C.P.M., since he first heard it in the 1980s. And, he believes it's as true today as it was then.

"It has really been the situation for the four decades I have been involved in supply management," says Ore, who chaired the ISM® *Report On Business*® for 15 years. "Business leaders find we are much more important when business is bad than when business is good."

Throughout the 100 years that Institute for Supply Management® (ISM®) has been an integral part of the profession, there have been numerous economic and supply chain crises — and each has changed and reshaped supply management's role in the business world. In recent history, the profession has weathered the energy crisis in the 1970s, nagging inflation in the 1980s, the Y2K worries in the late 1990s, and the world-changing events of 9/11 and the Great Recession in the early years of this new century.

Uldis Sipols, vice president, procurement, for Sonoco in Hartsville, South Carolina, says many supply chain professionals probably can relate to the popular statement from Rahm Emanuel, former chief of staff for U.S. President Barack Obama, when he said, "Never let a serious crisis go to waste."

Sipols believes crisis management brings out the best in supply chain professionals. "Crises can be seen as opportunities," he adds. "But if your organization has not demonstrated its value during good times, it will be difficult to do so during the tough times."

Sipols began his career in the automotive industry, which "is accustomed to seeing a trough about every five

years." As a junior buyer in his early career, he was able to find a silver lining in the difficult downturns.

"It worked out favorably for many of us who were young in the late 1970s as experienced employees faced layoffs," he recalls. "The remaining staff was given more responsibility, and we learned a lot. It gave us the opportunity to advance faster, and to gain experience that would take us to the next level. There's a bit of a lesson there for young professionals who may be discouraged by some of the challenges they face today."

Ore and Sipols believe decades of economic ups and down have left their mark on the profession. "In every instance, the events shape who we are and what we respond to," Ore notes.

The 1970s and 1980s

The 1970s were all about energy and revaluing energy on a global basis as the worldwide economy learned to cope with the OPEC oil embargo and skyrocketing prices. The 1980s were about inflation and trying to conduct business during times of high interest rates. "The economy during those decades presented many challenges from a supply management standpoint because of worries over continuity of supply and escalating prices," Ore recalls.

However, Ore says supply management's handling of issues during those turbulent decades did not elevate supply management because it was too mired in a transactional mode. "For supply managers, everything had to go on a purchase order," he says. "We were too involved in buying pieces, parts and services. It didn't matter what the terms and conditions were, the product or service had to have a PO to be put into the company's accounting system."

The 1990s and Early 2000s

The 1990s saw strong economic growth, low inflation and steady job creation, and with it a greater focus on supply management. Business leaders began to pay more attention to supply chains, but soon realized that while procurement was “extremely effective” at buying raw materials, it was not as effective at purchasing indirect materials and aggregating spend to obtain the greatest value, Ore says. Many large companies hired consulting firms to help supply chain organizations group commodities in categories rather than buy one commodity at a time, he explains.

“Many of the consultants were engineers, and they leaned toward creating processes,” Ore notes. “That’s really when discussions about strategic sourcing as a process began. Supply management began to look at its role holistically and to talk with upper management about opportunities for savings.” The 1990s also saw the United States switch from a manufacturing-based economy to a services-based one, again changing the profession and ISM.

A key challenge came as the 20th century rolled into the 21st and just about everyone worried if computer systems could handle the numerical changes the new millennium would require. In fact, business and supply chain leaders were so focused on Y2K worries, it created additional problems.

“It literally caused a lull in supply and demand balance,” Ore says. “Business leaders didn’t know how much their computer systems could withstand, so they minimized inventory levels.” But, much like the economic downturn after 9/11, the recovery following Y2K was quick. “It created more of a soft patch in the economy because, institutionally and structurally, industries were stable at the start,” Ore explains.

The New Millennium

The early years of the 21st century are defined by 9/11, the effect of globalization and international competition on the U.S economy, and the Great Recession. Those events ushered in a more strategic role for supply management

as business leaders looked to extract greater value and stability from supply chains.

Sipols says the crises of the early 2000s highlighted the need for supply chain risk management and cemented supply management’s role as the external face of their companies. “Whether it’s a natural disaster, a strike or economic crisis, supply management has a key role in responding to the risks these events create,” he says. “That is why it is natural to expect supply management to take the lead in a crisis.”

He says the Great Recession, which was “deeper, broader and longer” than anyone expected, allowed supply management leaders to demonstrate their value. “The ability to interact with your team, internal partners and suppliers became so important. It also measured the depth of supplier relationships, testing who your real partners were and who you could rely on.”

Ore says economic events through the past several decades have created supply chain organizations today that are “having more discussions with the executive suite, using data to do more with less and operating more efficiently.”

Throughout its long history, supply management has been about change. “If there is one word that has been constant throughout my career, it’s change — both the need and the willingness to accept it,” Ore says. “Supply management is a profession that has an expectation of change because markets and business change constantly, and we just have to adapt.” **ISM**

Mary Siegfried is a senior writer for *Inside Supply Management*®. For more information, send an email to author@ism.ws.



3 Critical Benchmarks to Prove Your Worth

A new study from CAPS Research offers metrics for supply management practitioners to demonstrate value to the organization, and a snapshot of how your colleagues measure up across industries.

The supply/procurement group has landed on the beach and moved inland. But it still faces battles to prove its worth and value to the organization. Executives in the C-suite and who lead other functional units still sometimes perceive supply management as only a support function of the enterprise. They often fail to recognize that supply management/procurement is a core business group. In fact, it's one of only two functions that face outwards with substantial, direct contact with external stakeholders (marketing is the other).

Too often, procurement and supply professionals are bogged down with their own internal struggles. They sometimes forget that they need to take time to explain their value to the enterprise in a compelling manner. They have a great story to tell the CFO, CEO and others about their value to the business.

Metrics Tell a Compelling Story

One important way best-in-class supply management organizations tell the story about their value is by using key metrics that

point to their effectiveness and efficiency.

Recently, CAPS Research has seen an increased interest in three particular benchmarks, which have become the most commonly referenced from our benchmarking

reports:

- 1) Average supply management operating expense as a percent of spend
- 2) Supply management's return on investment (ROI), calculated by dividing reported savings by the supply management operating expense
- 3) Average supply management operating expense (in U.S. dollars) per supply management employee.

Benchmarking Operating Expense (Opex) by Industry

	Opex as a Percentage of Spend	Supply Management ROI	Opex per Supply Management Employee (US\$)
Aerospace	1.6%	318.05%	\$125,826
Chemical Manufacturing	0.4%	422.5%	\$160,269
Engineering and Construction	2.4%	n/a	\$115,426
Industrial Manufacturing	1.2%	410.7%	\$133,610
Other Industries: Non-Manufacturing	1.2%	583.7%	\$137,184
Petroleum	0.9%	483.4%	\$159,749
Utilities	0.7%	425.4%	\$120,756

CAPS Research synthesized the data from 20 key performance indicators across seven industries to benchmark where each stands on the three key metrics you should be benchmarking. They will help you demonstrate supply management's value to your own organization.

If you know where you stand on these three metrics compared to other companies within your industry, you can start to get answers to the following important questions:

- Do you have a good story to tell about the efficiency and effectiveness of your supply organization and its value to the enterprise?
- Are you having success with initiatives to reduce operating expenses and increase savings? Or, what initiatives do you need to start?
- Is your team doing more with less?
- How can you use such benchmarks to justify investments in new internal improvement initiatives?

A Snapshot of 7 Industries

For CAPS' 2014 edition of the *Cross-Industry Report of Standard Benchmarks*, our benchmarking team collected and synthesized data pertaining to 20 key performance indicators from more than 130 different organizations representing seven different industry sectors. The chart on the previous

page offers a peek at where seven industries stand on these key metrics (the numbers represent averages for each industry).

Does your company belong to one of these industries? How does your supply management group compare?

Of course, a deeper dive into available data would allow for comparisons with companies in the same industry by revenue size, total spend, managed spend and so on. And while these three benchmarks tell a very important part of the story, they do not tell the complete story. Other key performance indicators that any supply management organization should consider include:

- Percentage of spend with qualified socioeconomic program suppliers
- Supply management employees as a percent of company employees
- Percentage of total spend via p-cards
- Percentage of active suppliers accounting for 80 percent of supply management spend
- Managed spend per supply management employee

- Supply management employees who are operational or strategic
- Average PO processing cost
- Annual spend on training per supply management employee.

Help prove the worth of supply management to the enterprise by using these three key benchmarks in your industry (and outside your industry) to tell a story about the value you deliver. You'll find that your influence expands and you'll win more battles over time.

The CAPS Research 2014 edition of the *Cross-Industry Report of Standard Benchmarks* is available to the public at www.capsresearch.org. Industry-specific breakout reports are available to CAPS Research member companies and companies that participate in and support the benchmarking program. For more information, send an email to metrics@capsresearch.org. **ISM**

Geoff Zwemke is associate director of benchmarking for CAPS Research in Tempe, Arizona. For more information, send an email to author@ism.ws.



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A Procurement Remodel

The New York City Housing Authority's supply management department goes through a major facelift to streamline procedures and improve service.

When a government agency is as large as the New York City Housing Authority (NYCHA), it's a monumental task serving 615,000 New Yorkers in public housing and Section 8 programs, and running an efficient and effective supply management organization to meet the needs of residents and the more than 11,000 NYCHA employees.

When the maintenance staff needs to fix a high-rise elevator, or a property manager in one of the more than 2,500 NYCHA buildings is low on printer paper, each needs to be confident they have the

necessary supplies and tools to get the job done quickly and correctly.

Re-Evaluating the Business Model

The NYCHA used to operate with 14 autonomous procurement offices — often buying the same materials at different prices. When General Manager Cecil House joined the housing authority in 2012, he made improving its procurement and supply management processes a top priority. The goal was to be more efficient, work smarter and establish a best-in-class supply operation. With total procurement spend in 2013 of US\$730 million and year-to-date spend through October 2014 at \$934 million, the challenge was significant. As a public entity, the NYCHA also must follow myriad federal, state and city guidelines.

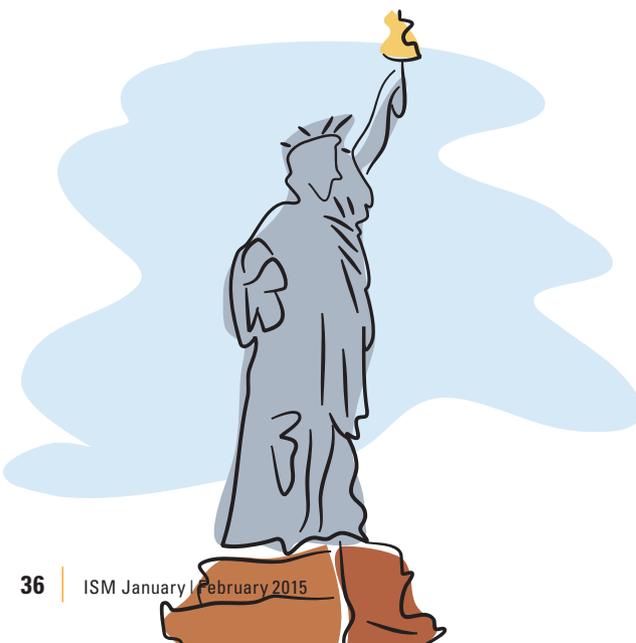
In March 2013, NYCHA began to tackle the challenge by centralizing and creating a new supply management department, streamlining its business model and raising service levels. One of the first steps was to examine the needs of each of the 14 procurement offices and the housing authority as a whole, analyzing how frequently each

procurement operation purchased materials. It quickly became clear that if all procurement and supply management functions were centralized, the housing authority could control maverick spending, move personnel to where they were needed, and do a better job of monitoring employee performance to ensure more efficient use of resources.

With a newly centralized staff, the next step was to adopt some best practices in the field. Senior staff received Six Sigma training at the Green Belt level to better understand quality, lean management and continuous process improvement. The goal was simple and clear — improve productivity by identifying and removing the causes of errors and minimizing variability in business processes.

Today, metrics are consistently reviewed so changes can be made before they become an issue, and a philosophy of continuous improvement is followed. These steps allow us to remove poor procurement habits, eliminate work silos and the shadow purchases made by other departments, as well as more closely track any rogue procurement that doesn't follow best practices.

While centralizing purchases improved efficiency, there also was a focus on customer relations and communications to upgrade service. Our internal and external



customers know what best meets their needs. The supply chain organization meets regularly with customers to assure them we aren't relying solely on metrics to track our performance. For example, customers told us they'd like product photos in the online catalog. We're now working with our IT department to satisfy this request. Also, email notifications and escalation alerts are sent to notify staff of pending actions required to complete requisition approvals.

Change Yields Results

Since transforming the supply management department, we've realized significant results from improvements to our operation in the following areas.

Spend under management. A team of analysts now tracks procurement productivity, with our spend-under-management ratio rising to 76-to-24, up from a less than stellar 55-to-45. This was accomplished by maximizing our role as NYCHA's sole procurement group to obtain better pricing by leveraging our purchases.

Inventory. Materials had been stored on four floors, including more than \$8 million sitting in the warehouse, much of it more than five years old. On-hand inventory was cut by 40 percent, storage space was reduced to three floors and we expect to eventually reduce it to two floors. The changes allowed the closure of four out of seven satellite warehouses by the end of 2014.

The inventory reduction was accomplished by requiring suppliers to deliver directly to NYCHA's developments instead of the central warehouse. More than 80 percent of our supplies now are drop-shipped where they will be used.

Leveraging buying power. We leverage our buying power, but also make more purchases through

larger blanket purchase agreements to achieve better pricing. These releases are up 55 percent on average compared to 2013. This more efficient way to contract and service housing developments allows the organization to be more nimble and responsive. We are buying more of what we actually use based on consumption. There's also a clearer picture of on-hand needs when an order is placed. These steps have resulted in fewer small procurements and a more efficient way of doing business.

Back orders. Back orders have been reduced by 93 percent. To achieve the reduction, we meet regularly with our operations team to monitor needs and better align orders with consumption. A procurement plan for purchasing in each quarter was established. As a result, NYCHA schedules purchases for appropriate quantities that leaves us enough time to fill new orders and assure enough materials are on hand until a new order arrives.

Capital improvements. With a portfolio of buildings that is between 50 years and 80 years old, NYCHA's largest contracts are for capital work to repair and maintain properties. The procurement process for capital improvements has been streamlined. Through October 2014, we performed 86 Letters of Award for capital work, compared to 20 in the same time period in 2013. A specialized team was assembled to handle only capital bids, resulting in the ability to keep up with increased demand from internal clients.

Purchasing catalogs. The NYCHA revised its purchasing catalogs to contain half as many SKUs. In a six-month period, total SKU numbers — what we call HA (Housing Authority) numbers — were reduced from 56,000 to 24,000. This leaner list also makes

order placement easier and more standardized. It's expected the HA number will be reduced to 20,000 by the beginning of 2015.

Minority and Women-Owned Business Enterprises. NYCHA provides opportunities to Minority and Women-Owned Business Enterprises (MWBEs). Two years ago, MWBE participation was 22 percent of all of services and materials procured. In third quarter 2014, that number was 49.6 percent, totaling \$465 million. In 2014, the supply management department held its first MWBE trade shows for suppliers. We also maintain a database of MWBEs, and for all small procurements (less than \$5,000) we consult the database when first seeking suppliers, while encouraging larger contractors to hire MWBEs as subcontractors.

What We've Learned

During this journey, we have learned that constant communication with our clients — NYCHA's developments and other departments within the authority — is vital. Regular meetings and enhanced online communication tools allow us to serve them better.

Also, continually offering training to staff helps them improve their performance. In addition to the Six Sigma training, NYCHA maintains online FAQs and relevant tutorials on our internal website. And gaining buy-in from all levels of an organization is crucial, including clients, supply management staff and top management.

At NYCHA, we are encouraging a culture of improvement and a belief that big changes will lead to measurable results. **ISM**

Victor Martinez is senior vice president and chief supply officer for the New York City Housing Authority in New York. For more information, send an email to author@ism.ws.

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Persons of the Year Awards.

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- Leadership Person of the Year
- Marketing/Communicating Person of the Year
- Volunteer Person of the Year.



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Forums Excellence Awards recognize those ISM affiliates and groups and forums that demonstrate excellence in their professional operations, educational offerings and recruitment, and training and retention efforts, while at the same time communicating the value and prestige of Institute for Supply Management® and the supply management profession.

For more information about these programs and to download nomination forms, go to www.ism.ws and select Affiliate Support at the top of the ISM Home Page, then Affiliate Support and ISM Awards Program.

Expert Presenters to Share Industry Knowledge and Valuable Insight at ISM2015 Annual Conference

The Institute for Supply Management® (ISM®) is hosting its ISM2015 Annual Conference in Phoenix on May 3-6, 2015. Esteemed keynote speakers Robert Gates and Sallie Krawcheck will share their insight and expertise with the more than 2,400 supply chain professionals in attendance.

Gates' career includes serving as the United States' 22nd secretary of defense from 2006 to 2011. He is a recipient of the Presidential Medal of Freedom, the National Security Medal and the Presidential Citizens Medal, and is the author of two memoirs – *Duty: Memoirs of a Secretary at War* (2014), a New York Times No. 1 best-seller, and *The Ultimate Insider's Story of Five Presidents and How They Won the Cold War* (1996).

Krawcheck is the owner of the leading professional women's networking organization Ellevest, which dedicates its commitment to empowering women economically around the world. Her extensive financial background includes past president of Bank of America Global Wealth Management, as well as chief executive officer and chair for Citi Global Wealth Management.

"This year, ISM2015 offers over 105 relevant and innovative sessions that correspond to our commitment to advance the practice of supply chain management," says Thomas W. Derry, ISM CEO. "The expertise that our speakers provide will prove beneficial to our Conference attendees as they continue to drive value in all stages of their careers."

ISM2015 is the profession's biggest and best event, hosting more than 2,400 supply chain and procurement professionals each year. The Conference will feature seven learning tracks and over 100 inspiring, educational and empowering sessions that will provide attendees the takeaways needed to achieve personal and organizational goals. Extensive networking opportunities are a key focus of ISM2015, allowing industry practitioners to create and leverage relationships and share insights with one another.

This year's ISM2015 is at the Phoenix Convention Center in downtown Phoenix on May 3-6, 2015. Registrations and sponsorship arrangements can be made at <http://conference.ism.ws>.

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For information about these upcoming ISM events and to register, please visit www.ism.ws:

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Atlanta, Georgia
- May 1-2, 2015
Affiliate Leadership Training Program
Phoenix, Arizona
- May 3-6, 2015
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January | February 2015

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Inside the Glossary

WAREHOUSE MANAGEMENT SYSTEM (WMS):

Computer software designed specifically for managing the movement and storage of materials throughout the warehouse.

In the news:

“Unique quirks of Amazon’s warehouse management. One aspect that the news source noted as interesting is that Amazon does not solely rely on computer systems, but rather uses a hybrid data gathering methodology that utilizes humans armed with barcode data collection software. The system helps to ensure that Amazon can keep up with its shipments, as at peak demand a truck will leave one of the company’s fulfillment centers every 105 seconds.” (www.rfggen.com/blog/bid/246924/Amazon-s-inventory-management-secrets)

Source: *ISM Glossary of Key Supply Management Terms* (www.ism.ws/glossary)

Logistics Professionals Feel the Need for Technology Speed

How is technology evolving in the shipping industry, and what will 2015 look like? INTTRA’s (www.inttra.com) *2015 Tech Outlook Survey* identifies the top technology priorities and challenges for international supply chain and logistics professionals from leading shippers, carriers and freight forwarders around the world. The report is based on research gathered from 251 shipping professionals, conducted in August and September 2014. Key findings include:

- **The industry is playing catch-up.** When it comes to adopting new technologies (such as mobility and the cloud), 77

percent of respondents believe the shipping industry is behind and still trying to catch up.

- **2015 will be the year of urgency.** Despite feeling like they’re lagging in technology, when describing the urgency to invest and adopt new technology in 2015, nearly half (47 percent) say the need is “very urgent.”
- **Go mobile.** While 71 percent of respondents say they’re comfortable with initiating and managing shipments from a mobile device or tablet, a full one-third say they aren’t doing so due to “lack of functionality” and “security concerns.”

Ebola Risk Prompts Some Shippers to Rework Contracts

As the Ebola virus persists in West Africa, shipping lines and traders are tweaking their contracts to protect themselves if the disease puts crews at risk of infection or prevents vessels calling at affected ports. *Maritime Executive* (www.maritime-executive.com) reports that, as of November 2014, Ebola had not yet forced ports to close, but uncertainties about the spread of the virus are adding to legal and financial concerns for those involved in shipping oil, cocoa and minerals from the region. Iron ore miners have already been hit by logistics problems exacerbated by the Ebola outbreak.

“Ebola clauses have now become a very common phenomenon,” a senior freight manager with a leading commodities trader told *Maritime Executive*. “It is to protect the safety of the crew and also the earnings of owners.”

Shipping lines that are active in West Africa have written clauses into their contracts requiring charterers to name alternative safe discharge ports if Ebola prevents them from arriving at the intended port. **ISM**



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Keynote Speaker, Robert Gates

Robert Gates' distinguished career includes serving as our nation's 22nd secretary of defense. Among his many accolades are the Presidential Medal of Freedom, the National Security Medal and the Presidential Citizens Medal. He has authored two memoirs, with his latest, *Duty: Memoirs of a Secretary at War* (2014), currently on the *New York Times Best Sellers List*.



Keynote Speaker, Sallie Krawcheck

Sallie Krawcheck is the owner of Ellevest. Ellevest is the leading professional women's networking organization, which is committed to the economic empowerment of women globally. Her extensive financial background includes past president of Bank of America Global Wealth Management as well as chief executive officer and chair for Citi Global Wealth Management.