

TIPS ON COPING WITH INFLATION AND THE ENERGY CRISIS

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Is the U.S. economic situation out of control?

- . Credit is stretched thin and the banks are worried
- . Rising prices are public issue No. 1
- . The petroleum situation is explosive
- . The stock market has collapsed
- . Mass starvation threatens in parts of the world
- . World currencies are in disequilibrium, with the British pound and the Italian lira in serious jeopardy
- . Labor trouble is in the air
- . During a crucial period, the Federal Government was paralyzed

The time of these headlines, ladies and gentlemen is not 1974, but in 1920, when there were uncanny parallels with the situation today.

Will I predict a major depression as took place in the late 20's and early 30's? No; inflation has been institutionalized today. Thanks to the monopoly power of labor unions and oligopolistic power of big corporations, it is much easier to raise prices than to lower them. Also, our welfare economics make it very unreasonable to expect that the U.S. will tolerate an unemployment level of 25% and massive insolvency. We have many more checks in our system today.

Let's define inflation. To most people, inflation means simply rising prices for goods and services and declining buying power in cash; it means that everything one buys for cash must go up in price. In the U.S. wholesale and consumer prices have been increasing at 10 - 13% on an annual basis. There's no immediate let up in sight. For the types of equipment you use to maintain your grounds and facilities, here are some reasons why prices are rising dramatically.

Since January 1, 1974 cost increases for the following commodities have been:

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|-------------|-----|--|
| 1. Aluminum | 24% | SOURCE: Chrysler Corporation Chairman, Lynn Townsend, as quoted in Minneapolis Tribune on Sunday, September 29, 1974 |
| 2. Steel | 39% | |
| 3. Castings | 27% | |
| 4. Zinc | 72% | |
| 5. Plastics | 16% | |
| 6. Copper | 45% | |
| 7. Rubber | 24% | |

It is worth reflecting that the problems of today aren't really unique and that the future rarely happens the way we expect. These are reasons why the October issue of Forbes magazine states that "the wise man expects the unexpected and keeps his powder dry."

How can you as Turf Managers "keep your powder dry" as you look at inflation and the energy crisis?

Let's look first at inflation. You as a manager can generally expect to pay higher prices in 1975 for everything you buy, including durable goods and labor. For durable goods, you can expect to wait longer for equipment than you're accustomed to. Even with the current general slowdown in our economy, critical components which make up the newer types of equipment are still in short supply. You'll be expected to improve upon last year's maintenance levels with budget dollars which may not be adequate for the task.

How can you deal with this situation?

My first broad recommendation is that you become a better business manager. In the classical definition, management means the efficient allocation of the

resource inputs of money, labor and equipment to produce some useful output. In your case, you might be planning, organizing and controlling money, people and equipment to maintain and improve land and facilities which we call parks or golf courses. This land and the associated facilities serve as areas where man can relax, feel closer to his family, to nature and to God and remove himself from the tensions of his everyday world.

First, take a look at your money input. What is the source of your funding? Can you plan and present your case well enough to justify a higher budget? Are you aware of the ramifications for your park system of the State and Local Fiscal Assistance Act of 1972 (known as the Revenue Sharing Act)? We're now into the fifth of seven entitlement periods. During the five years from 1972 to 1976 \$21,93 billion will be paid out to states, counties, cities and other eligible jurisdictions. To be eligible, you simply fill out two, one-page reports; one explaining actual use of funds received and the other including future plans for use of funds. Actual use reports filed to date under the Recreation/Culture category indicate that 70% of funds went to capital costs and 30% to operation and maintenance.

Second, take a hard look at your labor and equipment inputs and the relationship between the two. Many of you already use cost-accounting systems which tell you where your money has been spent in the past. These records may include cost journals, payroll records and service charge records. If you don't have a good system, begin to develop one.

Let me list some tips on developing a cost reporting system:

1. Use uniform records for accumulating cost data.
2. Have a standard report form for summarizing basic costs.
3. Develop a simple method for summarizing, analyzing and presenting cost data.
4. Formulate procedures for routing cost information to responsible people.

This system can be very effective as an analytical tool, a basis for projecting next year's costs and as a basis for contingency plans (e.g. a cost reduction program) should this become necessary.

If you're keeping good records now, you'll probably find that, for grounds maintenance, you're spending approximately 70% of your budget for labor, 3% for fuel of all kinds and the rest for equipment purchases and repair.

Since labor forms the majority of your total input, and its price is increasing as fast or faster than that of equipment, many forward thinking superintendents are allocating more of their funds for the purchase of higher capacity, labor-saving equipment.

Many manufacturers now offer you the kinds of equipment which can give you lowered total costs of maintenance while actually improving the quality of that maintenance. In other words, instead of budgeting more new hires next year, look at the possibility of using your existing manpower more effectively by having them operate larger, faster types of maintenance equipment.

After analysis, you may well find that the purchase of new equipment can result in labor savings which can provide a very short payback period. Many businessmen feel that an investment with a payback period of 1-3 years is an excellent one. As a definite fringe benefit, your existing employees should have more time available for other maintenance tasks.

So far we've discussed funding sources, the labor-equipment relationship which can be brought into focus through good cost reporting systems and the opportunity for saving money through leveraging you existing manpower - or making the people who work for you more efficient by using bigger, faster maintenance equipment.

A third subject area which can be of importance in managing in an inflationary economy is analyzing the way you spend your budget dollars. Many leading managers

are taking a hard look at leasing instead of buying outright the types of maintenance equipment they need.

Leasing has several advantages:

1. LEASING CONSERVES YOUR WORKING CAPITAL
Only leasing gives you the opportunity to obtain equipment with so little cash outlay. With payments spread over a long period of time, equipment pays for itself as it produces. Capital remains intact. When rentals are treated as a fully tax deductible expense, cash outgo decreases and usable capital is increased.
2. PRESERVES EXISTING CREDIT
Your established credit lines are not affected and remain readily available. Leasing gives you an additional, non-conflicting source of credit, thereby increasing your borrowing base.
3. OVERCOMES BUDGET LIMITATIONS
Minimum cash outlay plus modest payments enable you to fit the lease into the tightest of budgets. Even when your spending schedule is severely limited, leasing makes it possible to obtain the equipment you need when you need it!
4. REDUCES THE COST OF INFLATION
The bulk of your payments are made with tomorrow's dollar which, if inflationary pressures continue, will be cheaper than today's.
5. MAY OFFER IMPORTANT TAX ADVANTAGES
Today, the modern concept of leasing is not based on a tax program but rather on a capital conservation program; that is, the freeing of capital so that it can be used effectively to develop profits. However, since rental payments may be deductible as a normal business expense, a tax benefit might result from the difference in timing of the deduction for rent as compared to that for depreciation. Usually, the economic rather than the tax depreciable life of the asset determines the duration of the lease.
6. FLEXIBILITY
Leasing offers a wide variety of leasing plans and programs geared to fit specific financing needs: long term or short term; straight line or accelerated; renewable or replaceable.
Leasing may well play a valuable role in your plan to cope with inflation.

My final recommendation in coping with inflation is to stand back and take management by objectives; look at the total tasks you plan to perform in the coming fiscal year (programs, facilities, land, maintenance level desired). Work backwards from these objectives to define the number of people and their associated skill levels which you feel will be required to perform these tasks. Evaluate your present equipment fleet for its adequacy in achieving your goals. Then utilize the first three recommendations we've discussed to form several alternative Operating Plans.

Lay out the costs associated with each Operating Plan. The formal budget proposal then flows naturally from each Operating Plan. This will allow you the opportunity to present several operating plans with associated budgets for approval. Those involved in the approval process can then clearly see the results which can be expected from each budgetary level.

Consider these four general recommendations we've discussed:

1. Evaluate sources of funding, including Federal Revenue Sharing.
2. Examine the labor-equipment trade-off, utilizing a cost reporting system.
3. Evaluate leasing versus purchase.
4. Manage by objectives. Take an overview of your goals for the year then work backwards to develop alternative operating plans with associated budgets.

This business management approach can be most effective when trying to sensibly cope with inflation.

Let's spend a few moments discussing the energy crisis. Wellhead prices in the oil-rich Arab countries have increased from \$3 to over \$12 per barrel in less than a year. Earlier in 1974, fuel prices doubled and almost tripled and fuel of all kinds was scarce. While the situation has eased considerably and some major oil companies have recently lowered prices in an attempt to get rid of surpluses, many government and industry experts feel that winter and spring will again find shortages and higher prices.

There have been many articles published in the trade journals which you and I read dealing with the subject of how to cope with the energy crisis. Let me quickly list some tips which summarize the intent of these articles.

1. Maintain good contact with your fuel suppliers. Ask him for his recommendations on your storage capacity needs. Firm up contracts and prices.
2. Fuel costs represent 2-3% of your total budget. Should fuel increase again in price, the major savings will still accrue through efficient management of the labor factor.
3. Evaluate your equipment fleet against the tasks to be done.
4. Tune and maintain all equipment in accordance with owner's manual.
5. Establish preventive maintenance procedures.
6. For your facilities:
 - a. Lower working temperatures in office and shop.
 - b. Minimize interior and exterior lighting.
 - c. Seek alternative heating methods and do not heat or cool non-essential areas.
 - d. Consider use of insulation throughout the facility.
7. For your turfgrass:
 - a. Review all cultural practices and techniques.
 - b. Test soils to determine pH and nutrient levels.
 - c. Review fertilizer programs and products.
 - d. Evaluate watering schedules - frequency, timing, location.
 - e. Correct all drainage problem areas.
 - f. Evaluate mowing schedules - frequency, timing, location.
 - g. Evaluate adaptation and use of turfgrass varieties you now have versus characteristics to be found in "new" improved selections.
 - h. Evaluate height of cut in relation to type of mowing equipment.
 - i. Cultivate to ensure efficient use of fertilizer, water and chemicals.
 - j. Use pesticides wisely and maintain adequate programs for control of all pests, weeds, insects and diseases.
8. For your people:
 - a. Review all tasks and establish priorities.
 - b. Schedule equipment use to attain maximum efficiency.
 - c. Retrain operators on mowing techniques, equipment operations and adjustment.
 - d. Combine tasks, eliminate non-essential travel to and from work locations.
 - e. Familiarize all personnel with owner's manual.
 - f. Analyze special trips. Are they really necessary?
 - g. Stock high use parts and use United Parcel Service (UPS) for emergency deliveries.
 - h. Form car pools for transportation to and from work and professional meetings.

We've tackled inflation and the energy crisis in less than 30 minutes.

I hope you've found that at least some of the ideas we've discussed will prove helpful to you as you manage your turf facilities in these times of uncertainty. Expect the unexpected and keep your powder dry.

Thank you for your time and attention.