Four Ways To Fight Inflation

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Editor's note: The following was presented by the author — who is director of marketing, Turf Products Division, Outdoor Power Equipment Group, The Toro Company — before the Ohio Turfgrass Conference, Dec. 5, 1974.

IS THE U.S. economic situation out of control?

—Credit is stretched thin and banks are worried.
—Rising prices are public issue No. 1.
—The petroleum situation is explosive.
—The stock market has collapsed.
—Mass starvation threatens 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 is not 1975, but 1920 when there were uncanny parallels with the situation today.

Am I predicting another major depression? No; inflation has been institutionalized today. Thanks to the monopolistic power of labor unions and the oligopolistic power of big corporations it's 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 percent and massive insolvency. We have many more checks in our system today.

Let's define inflation. To most people, inflation simply means 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 to 13 percent on an annual basis. There's no immediate relief in sight.

Here are some reasons why prices of your equipment are rising dramatically. Since Jan. 1, 1974, costs of the following commodities have increased as indicated:*

Aluminum	24%
Steel	39%
Castings	27%
Zinc	72%
Plastics	16%
Copper	45%
Rubber	24%

It is worth reflecting that today's problems aren't really unique and that the future rarely happens the way we expect. 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. 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 recommendations 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.

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?

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:

—Use uniform records for accumulating cost data.
—Have a standard report form for summarizing basic costs.
—Develop a simple method for summarizing, analyzing and presenting cost data.
—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. Since labor forms

*Lynn Townsend, chairman of the Chrysler Corporation, as quoted by the Minneapolis Tribune, Sunday, Sept. 29, 1974.

a large part of your total input, and its price is increasing as fast or faster than that of equipment, many forward thinking turf managers 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 man-power 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 one to three years is an excellent one. As a definite fringe benefit, your existing employees should have more time available for other maintenance tasks.

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: **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.

Leasing 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.

Leasing 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

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possible to obtain the equipment you need when you need it.

Leasing 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.

Leasing 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.

Leasing can offer great flexibility. Leasing offers a wide variety of plans and programs geared to fit specific financing needs — long 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 a management-by-objectives look at the total tasks you plan to perform in the coming fiscal year (programs, facilities, land, maintenance level desired, and so on). 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 I've discussed:

- —Evaluate sources of funding, including Federal Revenue Sharing.
- —Examine the labor equipment trade-off, utilizing a cost reporting system.
- —Evaluate leasing versus purchase.
- —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 quite effective when trying to sensibly cope with inflation. □

NEWS *(from page 54)*

Stender Urges Managers To Start Safety Programs

"Eliminate those things that cause accidents; train your employees in safe work practices."

That was the advice of Assistant Secretary of Labor John Stender, head of OSHA, to the Genesee Valley Safety Conference.

Stender urged the predominantly management audience to encourage the establishment of safety programs in all segments of industry, large and small.

Stender said some 75 percent of all workplaces inspected turn up hazards. One of every nine workers suffers work-related injuries and more than 25 million work days were lost in 1972 due to on-the-job accidents.

Standard Marks 50 Years In Golf Accessory Industry

In 1975, Standard will celebrate their 50th year of producing golf course accessories. To mark this anniversary, Standard has changed their name from Standard Manufacturing Company to Standard Golf Company and added a new trademark. Their plant and offices remain at 220 East Fourth Street in Cedar Falls, Iowa.

The company actually started business in 1910 by making steel gates, wagon tongues and farm-related equipment. In 1925, Standard began making a few wooden poles, flags and steel cups for the golf industry. Three years ago, Standard sold their farm-related product division and now spends full time in the golf course accessory field.

Gingery Appointed Member Of Mailers Advisory Group

Lee E. Gingery, vice president in charge of sales for the Henry Field Seed and Nursery Co., Shenandoah, Iowa, was recently appointed by Postmaster General Klassen to represent the American Association of Nurserymen and the Mailorder Association of Nurserymen on the Mailers' Technical Advisory Committee.

This committee, comprised of individuals from the private sector, meets quarterly in Washington, D.C., to advise the Postmaster General with respect to the improvement and expansion of postal services.

Gingery is immediate past president of the Mailorder Association of Nurserymen, and takes an active interest in the American Association of Nurserymen as well as the Direct Mail Advertising Association.

He joined Henry Field's in 1960 as advertising manager and became a vice president in 1965. In 1969 he was named to the board of directors of that firm.