

Societies and Inflation
With Particular Relation to Development
Programmes and Capital Investment Projects

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Inflation, with its effect upon all facets of our daily lives, having been with us for all time, is no new difficulty for us to deal with when appraising development programmes. Nevertheless, the current much higher than usual rate of inflation, its many causes and subsequent effects, now give rise to the attendant difficulties of development programme appraisal being much more broadly based and worthy of even more serious concern and study.

Appraisal problems now of necessity being more broadly based, still give rise for accepting at the onset, certain basic principles; for instance, that under all circumstances few developments, large or small, can be regarded as gilt edged.

Secondly and also without reservation, at the time of any development plan appraisal, the plan itself must be soundly based. Weakness on this score makes the exercise of appraisal pointless and, therefore, any doubt as to the thoroughness of research into the scheme, must essentially first be satisfied.

Conditions for a Sound Development Programme

What, therefore, makes for a soundly based development programme?

It is suggested that it must be based upon detailed research into all the factors which can affect progress of the plan and the end result of the programme on completion.

Such detailed research whilst at first being technical in detail as to design, construction, ultimate customer throughput and profitability, must also provide for the problems arising from the activities of the environmentalists, changing retailing techniques, money supply, cash flow, fluctuating interest rates and the broadly based legislative powers of the local authority planners, all or any of which if inadequately researched and planned for, can seriously affect both the timing and cost elements of the plan.

From the above it will be seen that any development plan must essentially be flexible and capable of adjustment - hence the need to accept, whatever the difficulties, that however efficient the appraisal might be, subsequent changes to the plan will certainly emerge.

Any development plan large or small, long-term or short-term, even though soundly based upon an acceptable standard of research, must essentially provide information in two main parts:-

1. The facts as they are at the time of preparation.
2. The forecast as to what the end results should be when the plan is completed.

The main appraisal difficulty, therefore, is to accept that whilst the facts may be correct, the forecast must inevitably contain some element of crystal ball gazing. Who, for example, can forecast with reasonable confidence, such matters as the outcome and effect of the following?

- (a) Present inflation trends, will they worsen, slow down or level out?
- (b) What ratio of future gross profit earnings will be taken up in personnel costs or occupancy costs?

- (c) Will present legislative controls upon rates of gross and net profit margins remain stable?
- (d) What effect upon our fortunes will peace or war in the Middle East bring about?
- (e) Will the world population explosion worsen our ability to obtain supplies?
- (f) Will taxation in all its forms remain unaltered?

These, and many other problems of a similar nature, whether they be local, national, international or world-wide, will inevitably bring forth new difficulties of appraisal, in that the actual end product, of the development programme itself, usually is planned to last many years. Thus difficulties of forecasting with reasonable accuracy, turnover, profits, cash flow and the like, must be accepted.

The Moment of Decision

The problem of estimating long-term viability in a development programme in the light of uncontrollable or unforeseeable future circumstances, even if the programme is soundly based and even if capital investment and growth are essential to the future success of the organisation, poses the inevitable central issues. The questions then are:-

1. Should we go ahead with the programme or wait a while?
2. Should we readjust the programme to one of consolidation?
3. Must the programme essentially be short-term?

To go ahead with the programme regardless of the future outcome could, it is suggested, be irresponsible and foolhardy.

The difficulty of indecision or delayed decision is still with the appraisers. However, this not unknown dilemma of appraisal, can be overcome and should automatically lead to the asking of a few simple but important questions, or possibly the adoption of a wider field of appraisal.

Dealing with the latter, the process of development planning appraisal unfortunately too often is specialist in nature and usually deals only with the development plan itself. Thus it provides little regard for the extensive other internal plans being developed within the organisation, all of which in any event, play some part in the organisation's future trade growth and efficiency standards - for example, the sales promotion plan, the merchandising and marketing plan, the refurbishing and replacement of existing fixtures plan, the staff training plan. It is, therefore, possible, though somewhat difficult, that a balancing together of the development plan alongside the various other plans, could provide future growth needs and concurrently to some extent an even greater degree of flexibility in the overall strategy of the organisation, plus improved safeguards against the unforeseeable future.

Questions to be Asked

The simple questions to be asked should in any event have been provided for in any well-balanced property development plan. However, their repetition would do little harm:-

1. Has the programme taken full account of our competitors' collective development activities, and if so, are they going ahead with development or are they consolidating or doing nothing at all?
2. Having decided our market, what is our share of that market? Will the development plan or lack of it maintain that share, improve upon it, or cause us to lose ground?

3. Is the full programme or any part of it so large that the success or failure of the new capital investment can make or break the whole organisation if any, or all, of the imponderables should ultimately come upon us?
4. If the programme is short-term, say, one to three years, is it flexible enough to provide an acceptable growth sufficient to meet our rising costs?

Having answered the above points or questions, is there really a difficulty or appraisal as to the acceptance or otherwise of the development programme?

Assuming for instance that despite the problems of the imponderables, national growth and financial prosperity is to be ours in the future, then under those circumstances growth and development of our organisation must proceed along with that growth and prosperity.

Secondly, should stalemate in growth and a static standard of living be the order of the day, then without doubt some organisations will go to the wall, but others will progress or remain reasonably profitable, and some in fact may gain in prosperity. Surely, therefore, those organisations with a soundly based development programme, coupled with high standards of efficiency in all other aspects of their activity, will be those for whom prosperity will emerge.

Alternatively, should the forecasters of doom ahead be proved to be right, again only the most efficient and best in each field of operation, will survive. In fact a soundly based programme thoroughly appraised must surely be the best form of survival and defence in circumstances of our adversity.