

## Societies and Inflation

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There is no doubt that throughout the country a serious position is developing as a result of inflation. Private industry and the Co-operative Movement are equally affected, and it is logical that the greater the inflation the more it affects the cash flow of every company throughout the land.

Inflation is continuing at an alarming rate and in its wake there is developing a rapid deterioration in liquidity throughout industry and commerce.

Distribution is caught in the jaws of a vice - on the one hand, gross margins are under attack, and on the other, expenses, personnel costs and development costs are escalating rapidly, and, what is more alarming, no one can do anything or see any improvement taking place in the foreseeable future.

In addition gross margins are controlled by the forces of competition and as we are only too well aware, this competition is becoming even more fierce, not just in the Metropolitan area but throughout the country. Selling prices are being squeezed by competitive pressures, and as a consequence trading margins are being reduced so we are facing a future of reduced margins and increased expenses. Fortunately most societies are in a trade boom showing large increased trade, almost across the board and this is counteracting to some extent increased costs, but it is quite apparent that increasing expenses in many societies are outweighing the extra profit on increased trade.

### Prospect for Profits

Cash flow and liquidity can, in the main, only come from profits. The Movement must make profits if it is to progress, and if it is going to keep pace with our competitors. The fact that profits are subject to Corporation Tax must not act as a deterrent. It is better and much more healthy for a society to be successful and making profit and paying tax, than to be in the position of having no liability for tax.

There is no doubt that the squeeze on margins, taken in conjunction with the increase in expenses, will result in reduced profits for most societies. As a result of a reduced cash flow in many companies and societies no new development or re-development is taking place, but unless we develop and keep pace with the multiples we are likely to suffer a further decline in our fight for trade.

Under severe inflation, the difficulty we have to overcome is to strike the right balance between a continuing development and stagnation. It is therefore necessary to make certain that each new development can be a profitable asset to the society.

Inflation will continue to cause us severe trading worries, as no one can honestly say that inflation will soon be conquered. One has only to look at the financial papers and read published company accounts, (many from companies which were previously considered as blue chips), to see the serious position in which industry is finding itself.

### The Question of New Developments

Many of our companies are slowing down their rate of development or cancelling projects altogether. A case in point is the John Lewis Partnership which has pulled out of the Wood Green Central Area Development because, as the Chairman stated, the Partnership felt unable to commit itself to the necessary building contracts or to the borrowing of the necessary funds. Other firms such as

Debenhams and Woolworths have publicly announced greatly reduced profits and also drastic cut-backs in development.

Societies in the main are in the exact same position as our competitors. Unfortunately many, including the London Society, are heavily committed to very costly but necessary development which with interest rates at their present high level and the escalation of building costs, makes profitability for the first five years of many developments very doubtful indeed.

A 2% monthly rise in building costs plays havoc with even the most ingenious form of costing, and it is little wonder that where there is no definite building commitment, industry in all its aspects is being extremely cautious over future building contracts, with the possible result of considerable unemployment in the building industry in about six months' time.

While it is possible to obtain loans provided adequate security is given (and this at times can be difficult) the rate of interest of anything between 14% and 17% takes the gilt off the gingerbread. While there are signs that such rentals may be reducing slightly, it would still appear that in many cases the only one who can possibly make a profit is the developer, and even they are under severe pressure with companies going bankrupt.

Previously we were the last to be offered new developments, but now we are even being offered second rate sites, at ludicrous rentals with further upward rent reviews every three years, which makes profitability almost impossible.

### The Movement's Capital

The composition of the Movement's capital has rapidly altered during the past few years. No longer can we depend on members' Share Capital, which has declined quite rapidly and extensively.

Members' Loan Capital on the other hand has been increasing at a moderate pace, while we are all under pressure to invest superannuation funds outside our societies, or pay the market rate for the advantage of retaining such capital. It is perhaps galling that many superannuation funds which took expert advice and invested their funds in equities are now wondering what is going to happen if the share market remains at its present low level for any length of time. At the present time funds which are invested in societies are in a much superior position to those invested in equities or other forms of recommended market investments.

Food subsidies are affecting the cash flow of the Movement. In London Society alone the milk subsidy amounts to £100,000 per week, so we lose the use of  $\frac{1}{2}$  million pounds over the five weekly period, and in addition we have to add to this the loss in cash flow of the bread subsidy.

#### Stocks and Expenses

Replacing of stock at last year's level is costing some 30% to 35% more, and using London Society as an example, our cash flow is affected by some four million pounds in keeping to the last year's stock level.

With expenses increasing currently by 20% this is not only affecting profits but the additional cash required is a further problem which requires solving.

Stocks in distribution generally are too high and the rate of stock turnover requires to be increased to a much higher level.

While distribution has cut its expenses drastically over the past decade, starting with the introduction of self-service, followed by the advent of SET, the building of large supermarkets, and a much larger sales return per employee, further reductions in costs are immediately required.

Profits must be made and ploughed back, so that we can carry out future necessary development that can be run on profitable lines. Perhaps this is the time when the Movement should unite its ranks and adapt its policies to give maximum benefits to members and staff alike.