

Co-Chairman Senator CROLL: Rice Krispies?

Mr. ROBINSON: 3.59; 3.11; 2.89. Special K: 4.55; 3.85; 3.67.

Co-Chairman Senator CROLL: That is, as of?

Mr. ROBINSON: Our price increase was effective September 1. We did allow a month's inventory at the old price.

Co-Chairman Senator CROLL: But that is as of September 1?

Mr. ROBINSON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): In the year 1962 your net profit, after taxes, was 5.49 per cent. Your advertising and promotional costs were obviously the reason for that reduction in your net over previous years indicated here. These costs were approximately 5 per cent over 1961, and your net was reduced by almost the same figure. Then you did not increase your cost in 1963—you did not increase your cost to the wholesaler or distributor in 1963, even with this obviously rather poor result; but in 1963 you took almost the same 5 per cent and you reduced it from your promotional and advertising costs and came up with approximately the same net gain as you had previous to that. Is there any other reason that you can give us for your decreasing net margin in 1962, other than these higher promotional and advertising costs?

Mr. ROBINSON: Yes, there were other items, certainly, Senator O'Leary. First, in 1962 we completed a substantial addition to our factory. This required a fair amount of additional part-time help, and we changed our factory size and put a piece on the end. All the equipment you are using has to be integrated in this new space. There was a substantial increase in our manufacturing costs, about 2 per cent, in 1962 over 1961.

Senator O'LEARY (*Antigonish-Guysborough*): Then in 1963 the most noticeable increase in any one item was the grain ingredient which cost you about 2 per cent more. As I said, you reduced your advertising and promotional costs, and yet you came out with what I would call quite a satisfactory year; and yet in 1964 you increased your prices. Why?

Mr. ROBINSON: Let me go back and perhaps explain some of the reasons for the high base. It is the only one in this study that is at that 19 per cent level. We were concerned through 1960 and 1961 about the relatively static position of the business. In our company the first time our sales volume starts to experience either a levelling off or a decrease, the first place we go is to our marketing people to see what has caused this. Has it been poor quality of food processed in the plant? Has it been inadequate packaging? Why has this market not continued to respond?

We feel very strongly that our business must at least parallel the increase in population, and our country has been going along at about 1.8 per cent increase, I guess is a pretty close figure; and our business, all of a sudden, became static. We very quickly analyzed all the things being done from the market standpoint, and we made some changes. We used a number of package deals. This was two cornflake packages glued side by side, one selling at the regular price and the other at half price, feeling perhaps the addition of a very attractive price incentive might stimulate the whole industry and stimulate our business, certainly. We had certain market areas, cities or towns, or one of our sales districts where sales increases seemed to be difficult. We tried to stimulate these with additional advertising, and I could say, quite honestly, that when we got all finished that year, considering all these extra things we had done—and the incentives we had provided to the customer and the additional advertising—we started our business ahead but not really the way we would have liked to see it.

I guess we consider our past experiences as most helpful. I do not suggest we look backward, but rather appraise what we have done in the past as to how it might be applied in the future. At that point it was determined or felt that our level of 14.5, or in that area, for advertising and promotion was about the point