

Arms Division Minute 5, 1958

With respect to the Sportsman-58A and the XS-3 this tabulation shows a difference in factory cost of \$2.59. Because allocated expenses such as general and administrative expense and research expense and mark-up are calculated as percentages of the net selling price, this \$2.59 is reflected in differences in retail price of \$5.35 to \$9.10 in the different proposals.

The second evaluation presented by N. F. Larsen shows the project results of introducing the Sportsman-58A or the XS-3 at proposed selling prices using the forecasts recently submitted by the Sales Department. This shows that (in the third year) introduction of the Sportsman-58A at \$124.95 would increase net earnings by \$116,000 or 347.3% of total capital and total investment after completion. On the same basis, introduction of the XS-3 at \$99.50 retail (to match Sears Roebuck's J. C. Higgins) would increase net earnings by \$60,000, which would be 59.6% of the total capital required or 104.9% of the total investment after completion. 83

Thus, it would seem that the economics and the requirements of having an A Grade gun available by January 1, 1959 would favor the introduction of the Sportsman-58A rather than the XS-3. On the other hand, adoption of the XS-3 would permit introduction of a gun at a lower retail price (regardless of the basis chosen for establishment of profit) and this is believed by the Sales Department to offer an important competitive advantage; and the gun thus offered would be sufficiently different from the Sportsman-58ADL to justify the difference in price.

As was stated at the last meeting, the Ilion Plant should know by August 1 what guns will be in the line in 1959. In spite of this, the Sales Department believes the considerations mentioned in the last paragraph are sufficiently important to justify their taking additional time to reconsider their forecast in the light of economics presented by N. F. Larsen, and to see the outcome of the design tests on the XS-3 which are to be performed by DED. Assuming that the DED design tests are completed on schedule, the Sales Department has promised to have a firm recommendation by September 1.