

September 24, 1975

- b) Material Costs are significantly higher than project. Although further price increases are anticipated, it is expected that some reduction can be made by July, 1976.
- c) Direct Labor cost currently is substantially higher than project, presently representing some 20.5 man-hours per gun. The present high labor cost in turn results in higher Industrial Relations costs and higher charges for certain elements of overhead having labor in the distribution base. The "Objective" anticipates that Direct Labor will be reduced 23% to 15.8 man-hours per gun by July, 1976, by improvements in operations, processes and operating efficiencies. Further reduction in labor content, however, appears to be a prerequisite to attaining the level of profitability needed for this gun.
- d) Industrial Relations costs have been affected by increases in benefits as well as high labor content. 83
- e) Direct Departmental Expense of operating departments is affected by high scrap, maintenance and tool costs which are expected to be improved. Improvements are offset by higher wage rates and prices for tools and supplies.
- f) Engineering & Other Direct consists primarily of process engineering time on the M/3200. This is expected to increase with more effort directed to the M/3200's problems.
- g) Miscellaneous Direct largely results from difficulties, rework, repairs, etc., at Assembly. If clearly identified, these costs probably would be classified as labor variance or direct expense. Effort is being directed toward segregating and reducing these costs.
- h) Warranty Repairs on 3200's returned by customers have been high and are a significant cost factor. While it is expected that product improvements already made will reduce the number of returns, returns are expected to be appreciably higher than on other models for some time.