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Ilion, New York
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XP-100 PISTOL & MODEL 600 RIFLE - SELLING PRICE

Information on pricing the XP-100 Pistol and Model 600 Rifle was reviewed at the February 12 Operations Committee. The review was based on the Plant's letter to Gail Evans of January 25 concerning this subject. The following memorandum summarizes the pricing recommendations of the Committee.

Status Prior to Meeting

The status of the rifle and pistol prior to the February 12 meeting was:

	<u>Model 600 Rifle</u>	<u>XP-100 Pistol</u>
Retail Selling Price	Not established (Project Basis - \$85)	Not established (Project Basis - \$75)
Planned Calibers	222, 308 & 30-30	221 Remington
Stock	Wood - Monte Carlo Shape (No checkering, grip cap, fore end tip, swivels or sling)	Nylon

Pricing Recommendations

Model 600 Rifle

The Sales Department suggests the rifle can be successfully marketed at \$100 retail by adding Custom Checkering and changing the planned calibers from 222 and 30-30 to the new calibers 284 Winchester and 350 Remington Magnum, retaining the 308. They estimate the long term sales volume will be fifteen thousand (15,000) a year. The basis for their recommendations are:

- The retail price of the rifle must be increased above the \$85 used in the project. Earnings at this price are inadequate, being about break-even for the 308 and 222 calibers and a \$2.38 loss for the 30-30 caliber, on a full book cost basis. The earnings are poorer than originally projected due to lower estimated total plant volume, higher manufacturing cost for the 30-30 caliber and other small production cost increases.

- Since the price must be increased, the rifle will no longer compete price for price with the Winchester Model 94 and must compete with higher priced rifles. Consequently, features such as 30-30 Winchester to compete directly with the Winchester 94 may be dropped and other competitive features added for the higher price class.

Sales proposes the competitive features be improved by adding Custom Checkering to the sides of the grip and fore end. This provides significantly more appeal at small increased cost.

They also propose to substitute two new cartridge calibers, 284 Winchester and 350 Remington Magnum for the previously planned 222 Remington and 30-30 Winchester. Experience indicates a short barrel 222 Caliber rifle has no appeal. The 30-30 is obsoleted by cartridges with better ballistics. It is also hampered by additional project cost for design and tooling and by higher production cost than the rimless calibers. The additional project cost for 30-30 caliber has been estimated at \$110,000 of which only \$15,000 has been spent. Abandoning this caliber now will reduce project expenditures \$95,000.

- The Model 600 rifle with its proposed features and \$100 price should not materially affect Model 700 rifle sales. If it does, however, the cash operative earnings of approximately \$25 compares favorably with the \$27.40 cash operative earnings of the Model 700 ADL.

The Production, Research, and Treasurer's Departments agree with Sales' recommendations as proposed.

Table 1 attached summarizes the economics of the rifle as now proposed. The table also shows for comparison the economics of selling the originally planned calibers of 222 Remington, 308 Winchester and 30-30 Winchester at \$100 retail.

XP-100 Pistol

The retail selling price of the pistol must also be raised over the \$75 used in the project because of an estimated \$3.68 full book loss at this price. The earnings are poorer than originally projected due to lower estimated total plant volume, the higher cost of the pistol packing case, and other small increased manufacturing costs. The simulated leather pistol case adds about \$3.55 full book packaging cost.

The Sales Department feels the pistol can be marketed for \$95 retail and support a long term volume of 5000 a year. They feel the pistol must be priced below the rifle to maintain our marketing integrity. A visual comparison of the rifle and the pistol indicates to the Sales Department that the pistol should sell for a lower price.

The other departments question if the pistol cannot retail for \$100. They suggest the pistol will appeal to a limited market whose size will be unaffected by small differences in price. They also point out the full book manufacturing cost of the pistol at \$100 is only \$1 less than the rifle, and does not justify a \$5 lower retail (\$2.60 net selling) price.

The pistol price was left unresolved and will be determined by further discussion of the Committee at Bridgeport. Table 2 attached summarizes the economics of selling the pistol for \$95 and for \$100.

L. D. Cox

L. D. Cox

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Attachments

TABLE 1

MODEL 600 RIFLEOPERATIVE EARNINGS AND RETURN ON INVESTMENT
AT PROPOSED \$100 RETAIL SELLING PRICE

Costs Include Custom Checkering

	<u>At The Selling Price & With The Calibers Unanimously Proposed By All Departments</u>	<u>At The Selling Price Unanimously Proposed By All Departments & With The Original Calibers For Which The Rifle Was To Be Designed</u>		
Retail Selling Price	\$100.00	\$100.00		
Net Selling Price	53.82	53.82		
Calibers	Rimless Only 284 Win.* 303 Win. 350 Rem. Mag.*	Rimless 222 Rem. 308 Rem.	Rimmed 30-30	Total 222 Rem. 30-30 Win. 308 Win.
Estimated Third Year Volume	15,000	9,000	6,000	15,000
<u>FULL BACK COST DATA</u>				
Unit Cost of Goods	\$ 46.73	\$46.73	\$49.13	\$47.82
Unit Operative Earnings	7.09	7.09	4.39	6.00
% of Net Selling	13%	13%	8%	11%
<u>COST OF POCKET COST DATA</u>				
Unit Cost of Goods	\$ 28.60	\$28.60	\$30.10	\$29.20
Unit Operative Earnings	25.22	25.22	23.72	24.62
Total Operative Earnings	\$378 H	\$227 H	\$142 H	\$369 H
Net Earning After Franchise Tax, All Other Expense, and Federal Tax	164 H	98 H	61 H	159 H
<u>Investment</u>				
Permanent Investment	\$ 88 H	\$ 88 H	—	\$ 88 H
Working Capital	453 H	261 H	179 H	440 H
Total Capital Required	\$541 H	\$349 H	\$179 H	\$528 H
% Return on Total Capital	31%	28%	34%	30%

* Costs and earnings for calibers assumed the same as the prototype models displayed, with the addition of Custom Checkering. Any need for stainless steel Barrel or Recoil Pad would presumably have added cost offset by increased selling price.

TABLE 2.

XP-100 PISTOL

OPERATIVE EARNINGS AND RETURN ON INVESTMENT
AT \$95 AND \$100 RETAIL SELLING PRICE

Retail Selling Price	\$ 95.00	\$100.00
Net Selling Price	51.13	53.82
Caliber:	221 Rem.	221 Rem.
Estimated Third Year Volume	5000	5000
<u>FULL BOOK COST DATA</u>		
Unit Cost of Goods	\$ 45.39	\$ 45.73
Unit Operative Earnings % of Net Selling	5.74 11%	8.09 15%
<u>OUT OF POCKET COST DATA</u>		
Unit Cost of Goods	\$ 29.10	\$ 29.10
Unit Operative Earnings	22.03	24.72
Total Operative Earnings	\$110 M	\$124 M
Net Earnings After Franchise Tax, All Other Expense and Federal Tax.	\$ 48 M	\$ 54 M
Investment		
Permanent Investment	\$ 85 M	\$ 85 M
Working Capital	144 M	146 M
Total Capital Required	\$229 M	\$231 M
% Return on Total Capital	21%	23%