xc: H.K. Boyle
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Est. #4338

April 15, 1982

G.D. Campbell

M/700 Sporter

The attached preliminary first and third year economics have been calculated for the proposed M/700 Sporter based on prices and volumes supplied by Marketing. The cost estimates are based on current M/700 cost experience adjusted for inflation, changes in production volume, and the estimated cost effects of the revised product features specified by Marketing. Because details of the product mix within each grade were not available, all ADL, BDL, Classic, and Sporter grade rifles were assumed to be standard caliber (i.e. .30-06). The BDL special grade was assumed to include varmint and left hand grades.

Estimated first year (1983) results show this proposal will increase the average M/700 unit margin from 4.8% to 11.0% as a result of increased prices and improved efficiency due to the higher volume (85M units vs. 65M units). Additional net earnings of $755M yield a 22.2% net return on investment on a full allocation basis including the effects of reallocating overhead costs due to the increased volume. First year incremental results show net earnings of $1,201M and a 37.8% net return on investment.

A 46M unit increase in volume is anticipated for the third year of operation (1985) which will generate an estimated $1,461M net earnings and a 17.2% net return on investment on a full allocation basis. Estimated third year incremental results are $2,709M net earnings and a 34.4% net return on investment.

James C. Hutton
J.C. Hutton, Superintendent
Industrial Engineering Section

TRAndrews/kc
Attached

M/700 SPORTER
ESTIMATED UNIT PRICES, COSTS AND PRE-TAX EARNINGS
1st YEAR OF OPERATION

PRESENT

	M/700 ADL	M/700 BDL	M/700 Classic	M/700 Specials	Composite Unit
SALES QUANTITY	14,000	30,000	8,000	13,000	65,000
RETAIL PRICE	$ 359.95	$ 429.95	$ 399.95	$ 459.95	$ 417.18
NET SELLING PRICE	$ 194.63	$ 232.48	$ 216.26	$ 248.70	$ 225.58
TOTAL COST	$ 189.03	$ 220.48	$ 207.53	$ 234.21	$ 214.86
PRE-TAX EARNINGS	$ 5.60	$ 12.00	$ 8.73	$ 14.49	$ 10.72
% OF NET SELLING PRICE	2.9%	5.2%	4.0%	5.8%	4.8%

PROPOSED OPERATION

	M/700 ADL	M/700 BDL	M/700 Classic	M/700 Sporter	M/700 Specials	Composite Unit
SALES QUANTITY	10,000	24,000	8,000	30,000	13,000	85,0 00
RETAIL PRICE	$ 369.95	$ 439.95	$ 409.95	$ 419.95	$ 469.95	$ 426.42
NET SELLING PRICE	$ 200.04	$ 237.89	$ 221.66	$ 227.07	$ 254.11	$ 230.57
TOTAL COST	$ 181.26	$ 209.29	$ 198.89	$ 204.25	$ 221.95	$ 205.17
PRE-TAX EARNINGS	$ 18.78	$ 28.60	$ 22.77	$ 22.82	$ 32.16	$ 25.40
% OF NET SELLING PRICE	$ 9.4%	12.0%	10.3%	10.1%	12.7%	11.0%

M/700 SPORTER
ESTIMATED EARNINGS AND NET RETURN ON INVESTMENT
FIRST YEAR OF OPERATION (1983)

	Present Operation (M/700 Line)	Results From This Project: Full Allocation*	Results From This Project: Incremental Basis	Operation After This Project
SALES QUANTITIES				
M/700 ADL	14,000	(4,000)	(4,000)	10,000
M/700 BDL	30,000	(6,000)	(6,000)	24,000
M/700 CLASSIC	8,000	-	-	8,000
M/700 SPORTER	-	30,000	30,000	30,000
M/700 BDL SPECIALS	13,000	-	-	13,000
TOTAL	65,000	20,000	20,000	85,000
NET SALES	$ 14,662	$4,937	$4,937	$ 19,599
Mill Cost	$ 12,541	$2,939	$2,297	$ 15,480
Selling & Admin. Exp.	1,145	442	353	1,587
Finished Product Dist. Exp.	279	93	59	372
TOTAL COST	$ 13,965	$3,474	$2,609	$ 17,439
PRE-TAX EARNINGS	$ 697	$1,463	$2,328	$ 2,160
NET EARNINGS	$ 359	$ 755	$1,201	$ 1,114
INVESTMENT				
Project Expenditures	$ -	$ 200	$ 200	$ 200
Existing Facilities used directly in Operation	$ 6,069	-	-	$ 6,069
Allocated General Facilities	200	74	25	294
Working Capital	$ 10,519	$3,127	$2,956	$ 13,646
TOTAL INVESTMENT	$ 16,808	$3,401	$3,181	$ 20,209
NET RETURN ON INVESTMENT	2.1%	22.2%	37.8%	5.5%

* Includes effects of reallocation of overhead costs due to increased volume

M/700 SPORTER
ESTIMATED UNIT PRICES, COSTS AND PRE-TAX EARNINGS
3rd YEAR OF OPERATION

PRESENT

	M/700 ADL	M/700 BDL	M/700 Classic	M/700 Specials	Composite Unit
SALES QUANTITY	10,600	23,900	6,000	12,000	52,500
RETAIL PRICE	$ 419.95	$ 489.95	$ 459.95	$ 519.95	$ 479.25
NET SELLING PRICE	$ 227.07	$ 264.92	$ 248.70	$ 281.14	$ 259.13
TOTAL COST	$ 213.73	$ 248.44	$ 234.18	$ 263.45	$ 243.23
PRE-TAX EARNINGS	$ 13.34	$ 16.48	$ 14.52	$ 17.69	$ 15.90
% OF NET SELLING PRICE	5.9%	6.2%	5.8%	6.3%	6.1%

PROPOSED OPERATION

	M/700 ADL	M/700 BDL	M/700 Classic	M/700 Sporter	M/700 Specials	Composite Unit
SALES QUANTITY	6,000	20,000	10,000	48,500	14,000	98,500
RETAIL PRICE	$429.95	$ 499.95	$ 469.95	$ 479.95	$ 529.95	$ 487.06
NET SELLING PRICE	$232.48	$ 270.33	$ 254.11	$ 259.51	$ 286.55	$ 263.36
TOTAL COST	$200.50	$ 231.72	$220.54	$ 223.21	$ 243.19	$ 226.12
PRE-TAX EARNINGS	$ 31.98	$ 38.61	$ 33.57	$ 36.30	$ 43.36	$ 37.23
% OF NET SELLING PRICE	13.8%	14.3%	13.2%	14.0%	15.1%	14.1%

M/700 SPORTER
ESTIMATED EARNINGS AND NET RETURN ON INVESTMENT
3rd YEAR OF OPERATION

	Present Operation (M/700 Line)	Results From This Project: Full Allocation	Results From This Project: Incremental Basis	Operation After This Project
SALES QUANTITIES				
M/700 ADL	10,600	(4,600)	(4,600)	6,000
M/700 BDL	23,900	(3,900)	(3,900)	20,000
M/700 CLASSIC	6,000	4,000	4,000	10,000
M/700 SPORTER	-	48,500	48,000	48,500
M/700 BDL SPECIALS	12,000	2,000	2,000	14,000
TOTAL	52,500	46,000	46,000	98,500
NET SALES	$13,604	$ 12,337	$ 12,337	$25,941
Mill Cost	$11,439	$ 8,205	$ 6,326	$19,644
Selling & Admin. Exp.	$ 1,072	$ 1,064	$ 606	$ 2,136
Finished Product Dist. Exp.	$ 258	$ 235	$ 148	$ 493
TOTAL COST	$12,769	$ 9,504	$ 7,080	$ 22,273
PRE-TAX EARNINGS	$ 835	$ 2,833	$ 5,257	$ 3,668
NET EARNINGS	$ 430	$ 1,461	$ 2,709	$ 1,891
INVESTMENT				
Project Expenditures	$ -	$ 200	$ 200	$ 200
Existing Facilities Used directly in Operation	$ 6,261	-	-	$ 6,261
Allocated General Facilities	$ 204	$ 185	$ 62	$ 389
Working Capital	$ 9,706	$ 8,122	$ 7,618	$ 17,828
TOTAL INVESTMENT	$16,171	$ 8,507	$ 7,880	$ 24,678
NET RETURN ON INVESTMENT	2.7%	17.2%	34.4%	7.7%