

OPERATIONS COMMITTEE - FIREARMS
M/3200 Cost-Profitability Review

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September 24, 1975

Factory Costs appearing on Operative Earnings statements are costs associated with guns shipped from warehouse inventory ("output" costs) and therefore do not necessarily represent current costs of producing guns because of the time lags and averaging effects of inventories.

In view of this, a review also was made of current production cost data. For purposes of this review, costs for the M/3200 Regular Trap grade were used as being representative of the line.

Concurrently, the Ilion Plant established an "Objective" cost level that is expected to be attained by July, 1976. The "Objective" cost level is based upon an analysis of present costs and the results expected to be attained from cost improvement programs after allowing for anticipated increases in prices and wages as well as the wage increase granted this past August.

It should be noted, however, that the "Objective" represents a level of operating cost which, because of the effect of inventories, would not be fully reflected in Cost of Sales on Operative Earnings statements for several months.

In Table II, attached, the following unit production cost data for the M/3200 Regular Trap grade gun are shown:

- a) Project adjusted for wage and price increases between September, 1972 and July, 1975. This adjustment amounted to 24.4% overall.
- b) Current cost level as represented by an averaging of May, June and July production costs.
- c) The July, 1976, "Objective" cost level described above.
- d) The #4 Forecast cost level for the 3rd Quarter of the year 1976. (Note: These data are not generated in the same form as the other data shown.)

The production cost elements shown in Table II have been grouped for this purpose so that "Direct Costs" represent elements directly identifiable with the M/3200 rather than the normal "cost sheet" grouping.

From the comparisons shown, the following observations can be made:

- a) Prices: Price increases (totaling 38.8% on the Trap gun through July, 1975 and 58.3% by 1976) have more than kept pace with increases in material prices and wage rates, serving to offset to a degree the cost problems encountered on the M/3200.