CUSTOM GUNS

Remington's Custom Shop products include all customized rifles and shotguns, both catalog and made-to-order. Historically, custom centerfire rifles account for around 98% of Remington's custom gun business. The high cost of custom firearms puts them well beyond the reach of the average consumer, which explains why custom firearms businesses everywhere are low volume affairs. Even the "biggest" of the custom gun makers have sales volumes only between 500 and 1800 units a year.

Remington Segment Performance

Remington Custom Guns	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 FCST	2003 PO
Unit Sales (M)	2.9	1.4	1.4	1.3	1.0	0.9	1.2
Sales Dollars ($MM)	$2.1	$1.4	$1.4	$1.4	$1.0	$0.9	$1.0
Standard Margin ($MM)	$0.2	$0.3	$0.2	$0.6	$0.1	$0.1	$0.1
Standard Margin (%)	9.5%	19.0%*	11.7%	42.1%*	5.8%	4.8%	5.0%

*Finance has stated that margins in these years were over inflated due to incorrect standard costs in the SAP system.

Over the last 3 years sales of Remington custom guns have averaged around 1000 units annually.

Business Overview

Traditionally Remington's Custom Shop has been more of a marketing tool and less of a money-making enterprise. Margin positions in the Remington Custom Shop have been challenged by high standard costs. These high standard costs are a direct result of the overhead allocation practices in the Ilion plant which allocate overhead at a flat rate per labor hour. Because the Custom Shop products are labor intensive by nature, overhead rates would not be expected to decline significantly with additional sales volume.

Instead, the Custom Shop's value has been as a high-profile showplace of the best that Remington has to offer. As such, the typical standard margins that are expected of the rest of the firearms business are not within the realistic realm of the Custom Shop as it is currently structured. As stated above, an increase in volumes would be unlikely to significantly reduce the high overhead rates carried by the Custom Shop. Increasing price to support 30%-40% standard margins would likely all but dry up any demand for Custom Shop products.

Another alternative would be to structure the Custom Shop as an entirely different company, similar to Remington's PMPD business with its own cost structure. Given the volumes of the Custom Shop, coupled with complex problems such as labor, location, and transfer pricing, this strategy is perhaps not the most practical long-term approach.

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