Defining Business Interruption in the Print Industry

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The concept of business interruption is more prevalent in geographical areas prone to weather-related catastrophes, such as Florida. However, many businesses in New York City were gravely affected on 9/11. This caused many insurance carriers to specifically address terrorist activities in future policies.

Generally, insurance companies measure business interruption by lost income, plus out-of-pocket expenses. This sounds straightforward, especially in the case where the whole plant is shut down for a period of time. However, it gets trickier when only some presses have been affected. Most claim representatives prefer to look at historic and current sales activity levels to determine lost profits. For a printing company, this may not tell the whole story.

As you know, sales activity may not be indicative of work produced on any given day for a print manufacturing facility, especially if these are custom jobs. Some jobs may run for several hours, several days, or even several weeks. These jobs may not be billed on an interim or a partially completed basis. Instead, sales on any given day are the result of completing a job, and not necessarily press hours spent over a static timeframe. Moreover, value-added processes are typically billed upon completion of a job, such as folding, cutting, stapling, or shrinkwrapping.

Timing is Everything

A job could have been completed on press today and billed today, or completed on a press three weeks ago, and then cut, folded, labeled, and wrapped, and billed today. When a press is down, productivity is certainly affected. When a claim representative focuses on daily sales activity, he or she is not capturing the forgone productivity from the press being down. Work can be shifted from one press to another, but not on a whim, and certainly not if that press has special features required by a

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> *"Make sure you understand how your insurance policy defines a business interruption… get a cost analysis on your press to demonstrate how a loss in productivity will result in lost profits."*

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specific job. In theory, if you could show daily sales by press then that may be more indicative of lost profits.

In reality, most small printers do not track this information because it does not inherently have much meaning. As a result, printers feel daily sales levels may not be the best indicator for lost profits resulting from a business interruption. However, if the data revealed the actual press utilized, including run times—date run started and date run finished—and value-added processes were detailed, then it would be more useful. For instance a 14" non-UV press is billed at a non-UV, three-color rate as opposed to a UV six-color rate.

These points are magnified when the printer has a backlog, which typically occurs on their primary presses. One small printer with several presses had a leak in the roof that damaged a press. Jobs could not be moved to other presses because they were not UV presses, plus the other presses consistently had a backlog. The press was down from Tuesday through Friday. With two, 10-hour shifts per day, the firm lost a at a minimum 72 hours of productivity. In this instance, the presses had different capabilities, and jobs were not interchangeable.

Make sure you understand how your insurance policy defines a business interruption. It may be wise to get a cost analysis on downtime for your press to help demonstrate its loss in productivity, and how that translates into business lost profits for purposes of a claim.

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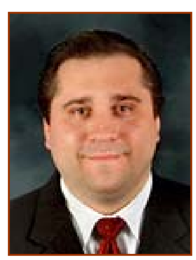

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