# What is LOST SALES VALUE OF PRODUCTION?

b(INFORMED!)

[ answers to frequently asked questions ]

This coverage is for manufacturing operations and pays for the sales value of lost production when the plant is shut down. For the business income coverage, the definition of net sales states, "For manufacturing businesses, net income also includes the net sales value of production." Not all policies have this wording or provide this protection, so read your policy carefully. There is usually a deductible, like three days average daily value.

For example, in Metalmasters of Minnesota, Inc. vs. Liberty Mutual Ins. Co., 461 N.W. 2nd 496 (Minn. Ct. App. 1990), a water pipe burst in the insured's clean room where it manufactured electronic components. Although it was nine weeks before the insured could restore manufacturing operations, the insured managed to fill all outstanding contractual orders by dipping into an inventory of salvaged components during the period of restoration. Thus, the insured did not lose any sales until after the nine week period of restoration, as the depleted inventory could not be refilled in time to meet ongoing orders. In the absence of any policy language that clearly established coverage for net sales value of the goods that would have been produced during the period of restoration, the appellate court rejected the insured's business income claim.

The current ISO language eliminates any doubt about coverage for the sales value of goods that would have been produced by an insured manufacturer during the period of restoration. For manufacturers to avoid the possibility of a dispute, non-standard forms should be checked to confirm they contain similar language or some other provision that clearly establishes this point. Even if sales are made up at a later date, there are still continuing expenses and extra expenses incurred during the recovery period (see our previous article on deferred sales).

For example, a pipe manufacturer operating one shift five days a week generates one thousand feet of pipe a day with a sales value of $2,000, or $10,000 a week. If a covered peril interrupts operations for two weeks, there is a loss of business income of $20,000, minus discontinuing expenses (materials and supplies) even though they are still selling out of inventory. Confusing the calculations are such things as seasonality, idle periods, inventory buildup, and new business forecasts. The point is that there is protection for manufacturers if the definition of business income includes "net sales value of production".

**REMEMBER: Replenishing inventory is not covered in the business income coverage. It is covered under the property replacement coverage.**