File #387

The Case of the Severed Service

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Was phone service indispensable to this business, or was management *making mountains out of molehills* due to the inconvenience of lost service?

The Case of the Severed Service provides an excellent example of just how important a business perceives its telephone service to be. The case concerns a company that lost much of its phone service for a period of five days after a trucking firm down the street inadvertently tore out half of its phone lines, completely disrupting phone communication between two buildings until repairs were made.

The company claimed its business suffered due to loss of ability to easily communicate between buildings and because customers had to be asked to place a second call to a cell phone in the affected area.

To quantify its loss, the claimant analyzed its sales for the days in question comparing the average daily sales to an average day for the year calculation. It proposed a business interruption claim in the amount of $40,000.

Cremers, Holtzbauer & Nearmyer was asked to analyze the claim, and found that the insured had two distinctly different areas of business. The first, a steel distributorship, depended heavily on customer-initiated phone orders, an area that could conceivably have been hurt by diminished telephone service. The second, a scrap metal operation, didn't require significant phone service at all since customers merely trucked scrap metal to the site and dropped it off. For the second segment, it was determined the five day interruption constituted more of an inconvenience than an interruption of business.

A careful analysis of daily, monthly and annual sales records indicated that the average day of the year sales the company used to calculate the claim were substantially correct. However, average day sales history for the month in question, December, traditionally showed a significantly lower sales volume than the annual average day amount calculated by the insured. In fact, the historical sales figure for December was nearly the same as the actual sales during the five days of December that phone service was interrupted.

Our forensic accounting analysis resulted in a recommendation that actual losses were only $104 of the $40,000 claimed.

SUMMARY

Background

A company lost half its phone lines for five days, and filed a claim for $40,000 due to loss of efficiency and actual lost sales.

Objective

◆Study the effect on company operations to determine what decreased sales during the period were actually due to the phone problem.
◆ Provide an estimate of the calculated lost revenue.

Our Determinations

◆ One segment of the company included in the claim was not critically dependent on phones.
◆ The annual per-day sales figure used to calculate the loss was not valid since the time period of the loss historically had lower average daily sales.

Results

Analysis and calculations resulted in an estimate of actual loss in the amount of $104, rather than the $40,000 amount claimed by the insured.

Bottom Line

We would like to be part of your team, too. Please call Dale Cremers, Robert Holtzbauer, or Roger Nearmyer for a free consultation.