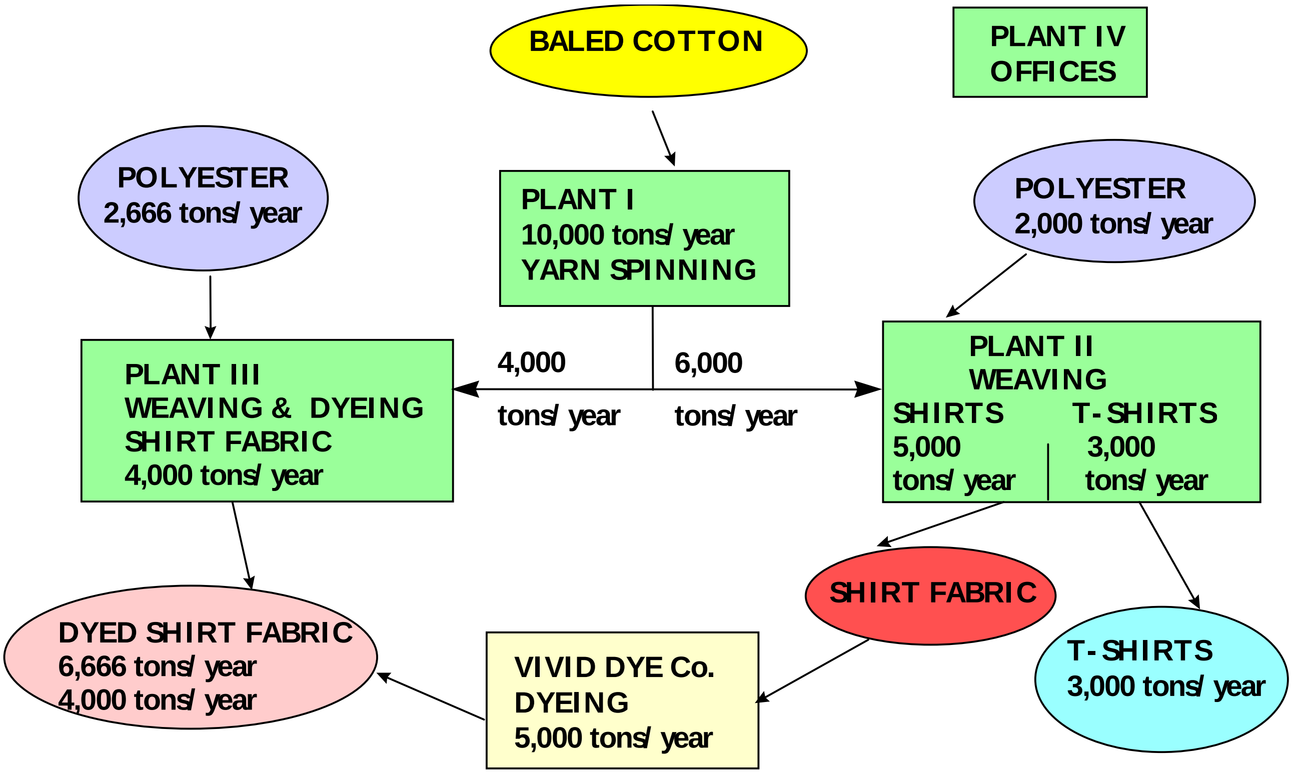
The Cotton Shirt Company

Answers to Questions

1. Draw a sketch of the production flow between the plants.



2. Is there anything wrong with the property values?
   Yes, the value of the baled cotton is not indicated in the table.

3. Are the BI values correctly reported?
   No, because the BI of the fabric is reported as a lump sum instead of reporting it per location. Furthermore this lump sum has been based on sales price and not on fixed costs and profit.
   The BI for the dyed shirts is reported as produced by Plant IV, which is only an office, i.e. cannot produce.
   Finally the outsourced production to the Dyeing company (e.g. the added value created) has been reported as part of the BI for the fabric.

4. Does Plant I have a BI potential? If yes, what would it be?
   Due to the strong interdependency between Plant I and the rest of the company, the BI value for Plant I would be the sum of the BI declared for T-shirts and fabric, but excluding the added value created by the Dyeing Company.

5. What would happen if Plant III burned down? Would it be possible to re-locate part of the production to Plant II? If yes, what would it require?

Yes, it would be possible to increase the production rate of Plant II to its maximum capacity of 5,000 tons/year, and therefore “save” 1,000 tons. But this requires that both dyeing processes be similar.

If the dyeing processes are not the same, then it is not possible, or the cost to weave the cotton in Plant II and ship it to Plant III for dyeing, must be less than the gross profit of 1,000 tons/year of fabric. The insurer will decide to take the cheapest solution.

6. Would Extra Expense (EE) coverage be interesting for Cotton Shirt Co.?

Yes, because the EE coverage would reimburse the cost of shipping fabric from Plant II to Plant III, when this solution is more expensive than “losing” another 1,000 tons/year.

EE coverage is interesting for the insured when products cannot disappear from the market, and/or when the product can be produced elsewhere but in a more expensive way than within the company.

7. Should the Cotton Shirt Company purchase C-BI coverage? If yes, what would be the value insured?

C-BI coverage should be purchased to cover the added value created by the Dyeing company that dyes the fabric from Plant II.

The value insured should be based on the annual production that flows through the dyeing process, i.e. 4,000 tons/year.