MONTANA CHILD CARE BUSINESS

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Revenue Diversification & Sustainability in the Early Care and Education Industry

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Current as of: April 17, 2023

The topic of sustainability in a childcare business is front and center in the aftermath of the COVID-19 pandemic. Businesses in the early education system have grappled with these challenges for years. Low wages and business attrition appear to be the outcomes of systemic struggles. On one hand, affordability of care to families is a concern. On the other hand, a business is not sustainable if it is not profitable. And yet, the primary, and often only, way early childhood businesses generate revenue is by selling the service of childcare.

For broader context, businesses across all industries have two primary ways to generate revenue:

- Sale of products
- Sale of services

Some early education providers have figured out there are two ways out of their revenue and sustainability quandaries.

One solution is to get to scale. In programs serving 80-100 children or more, the problems of revenue, profitability, and sustainability appear to level out. This is due to the number of children being served.

Another solution is to bring money into the business in different ways. Some early education businesses have implemented these solutions and strategies.

The public school system appears to have also figured this problem out. While state and federal revenue covers a large portion of the money needed to run a public school, that public revenue is not enough. This is why teachers buy supplies with their own money. But public schools bring money in, in a large variety of ways other than their state and federal revenue.

It is time for the early care and education system to follow suit. The old motto, “Adapt or Die” is of relevance here because when businesses, regardless of industry, are overly siloed in how they generate revenue, they are at a higher risk of failure.

The following is a working list of ideas, in use in some childcare programs and in public schools. When considered in conjunction with tuition adjustments, these strategies appear to help stabilize and diversify an early education business’ revenue, profitability, and overall sustainability.

SELLING DIFFERENT PRODUCTS OR SERVICES TO THE PRIMARY TARGET MARKET

The consideration here is to expand the offerings to the existing customers. Families are already paying for these things. They are just paying someone else for them.

❑ Food
❑ Snacks
❑ Drinks
❑ Diapers
❑ Toys
❑ Old assets being replaced.
❑ Merchandise
❑ Books and learning materials.
❑ Class and individual pictures

ALTERNATE UTILIZATION OF ASSETS

The reason businesses invest in assets, like buildings, equipment, furniture, fixtures, and toys is to use those assets to generate revenue. The consideration here is to use those assets in a way that is different than their traditional purpose.

❑ Space rental
❑ Kitchen rental
❑ Parties
❑ Special events
❑ Family movie nights
❑ Garage sales
❑ Non-real estate asset rental
❑ Advertising and corporate signage
❑ Lease of space to other community services providing services to same-age children, such as mental health or speech therapy providers.

ALTERNATE UTILIZATION OF HUMAN RESOURCES

The consideration in this category is to think about our staff. In a service-based industry like childcare, the largest cost of doing business is the wages of the staff. Most, if not all, of those staff members are in the classroom. Some are indirectly supporting the in-class staff. Re-thinking about our staff and how we utilize their knowledge, skills, and abilities may provide insight into how else we can utilize their skills to generate revenue.

❑ Alternate educational offerings that target different age and gender demographics.
❑ Babysitting classes.
❑ First Aid classes
❑ CPR classes
❑ Positive discipline and guidance classes for parents

COST OFFSETS – ASSETS

When business owners are proactively managing their financial performance, they look at four ways to increase profitability: increasing revenue, increasing volume, decreasing variable costs, decreasing fixed costs. The question to ask when considering this category is: How can I drive down the monthly expenses or the cost of purchasing new assets. By driving down costs, we can also drive profitability up while having positive cash flow impacts.

❑ Donation of toys
❑ Donation of classroom materials
❑ Donation of office supplies
❑ Donation of cleaning supplies
❑ Utilizing various high school or college programs seeking volunteer hours
❑ Utilizing various retirement-aged community programs seeking volunteer hours
❑ Family donations of time and effort for “workdays” such as: cleaning, painting, carpet laying, etc.

COST SAVINGS – FINANCIAL

In this category, we look to decrease the overall outlay of cash by utilizing programs that reimburse businesses. When accessed and utilized, cash may come back into a business after it has been spent.

- ❑ Work Opportunity Tax Credit (WOTC)
    - This is a federal tax credit program for hiring certain types of employees fitting certain demographic groups. This is a year-end tax credit that decreases the overall tax burden of an employer.
- ❑ Montana Department of Labor and Industry – Incumbent Worker Training
    - This is a state program that reimburses employers for certain types of professional development designed to upskill and increase the earning potential of employees. Reimbursement happens upon completion of qualifying professional development opportunities.
- ❑ Montana Department of Public Health and Human Services – Vocational Rehabilitation
    - Utilization of this program may create employment opportunities for able-bodied workers eligible to participate in the Vocational Rehabilitation program. In some cases, a restructuring of a business’ staffing pattern may create work opportunities for historically underemployed individuals who traditionally earn less.

These are just a few considerations for diversifying revenue and decreasing costs in the childcare business. No singular approach will solve every problem. Each idea should be carefully considered before it is implemented.

For additional assistance and next steps in the strategic planning of your childcare business, contact Zero to Five Montana’s Senior Child Care Business Advisor Jason Nitschke at JasonN@ZerotoFive.org.

FUNDING STATEMENT: This project is funded in whole or in part under a Contract with the Montana Department of Public Health and Human Services. The statements herein do not necessarily reflect the opinion of the Department.