

# Montana Child Care Business Connect 2023 Summit

## Revenue Diversification

Wednesday, September 13, 2023

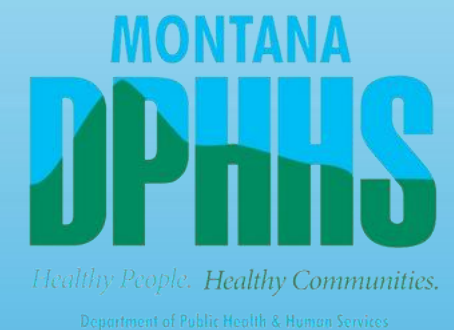
10:45am-11:45am



*Small Business Support. Big Community Impact.*



ZEROTOFIVE  
MONTANA



# Jason Nitschke; MA, EDFP

---

## Senior Child Care Business Advisor



"Helping entrepreneurs turn  
**visions into reality**"

### Education

- 2002 – M.A. Communications – Hawaii Pacific University
- 1997 – B.A. Journalism/Political Science – University of Montana

### Economic Development & Entrepreneurship

- 2019-2022 – Vice President – Great Falls Development Authority
- 2014-2022 – Regional Director – Great Falls area Small Business Development Center (SBDC)
- 2011-2012 -- Carondelet Estate Services, LLC; St. Louis, MO
- 2000-2002 -- JNitschke Photography; Denver, CO

### Certifications

- 2021 – Certified PeerSpectives Facilitator – Edward Lowe Foundation
- 2017 – Certified Export Counselor – U.S. Small Business Administration
- 2017 – Certified Profit Mastery Facilitator – Business Resource Services
- 2015 -- Economic Development Finance Prof. (EDFP) – National Development Council
- 2015 -- Accredited Small Business Consultant (ASBC) – Association of Accredited Small Business Consultants
- 2015 -- Certified Business Advisor – GrowthWheel International

### Recognitions

- 2022 – Boots to Business National Instructor of the Year – U.S. Small Business Administration
- 2018 – Montana SBDC State Star
- 2010 – Television News Enterprise Award – Montana Broadcasters Association
- 2009 – Television Sports Reporting Award – Society of Professional Journalists
- 2007 – Television Sports Enterprise Award – Montana Broadcasters Association

# Goals for Today

---

- I. Definitions, Beachhead Markets & Business Cases
- II. How Do Businesses Generate Revenue?
- III. Problems in ECE Right Now
- IV. Reality of Revenue & Costs in ECE
- V. Conclusion & Discussion

# Part I:

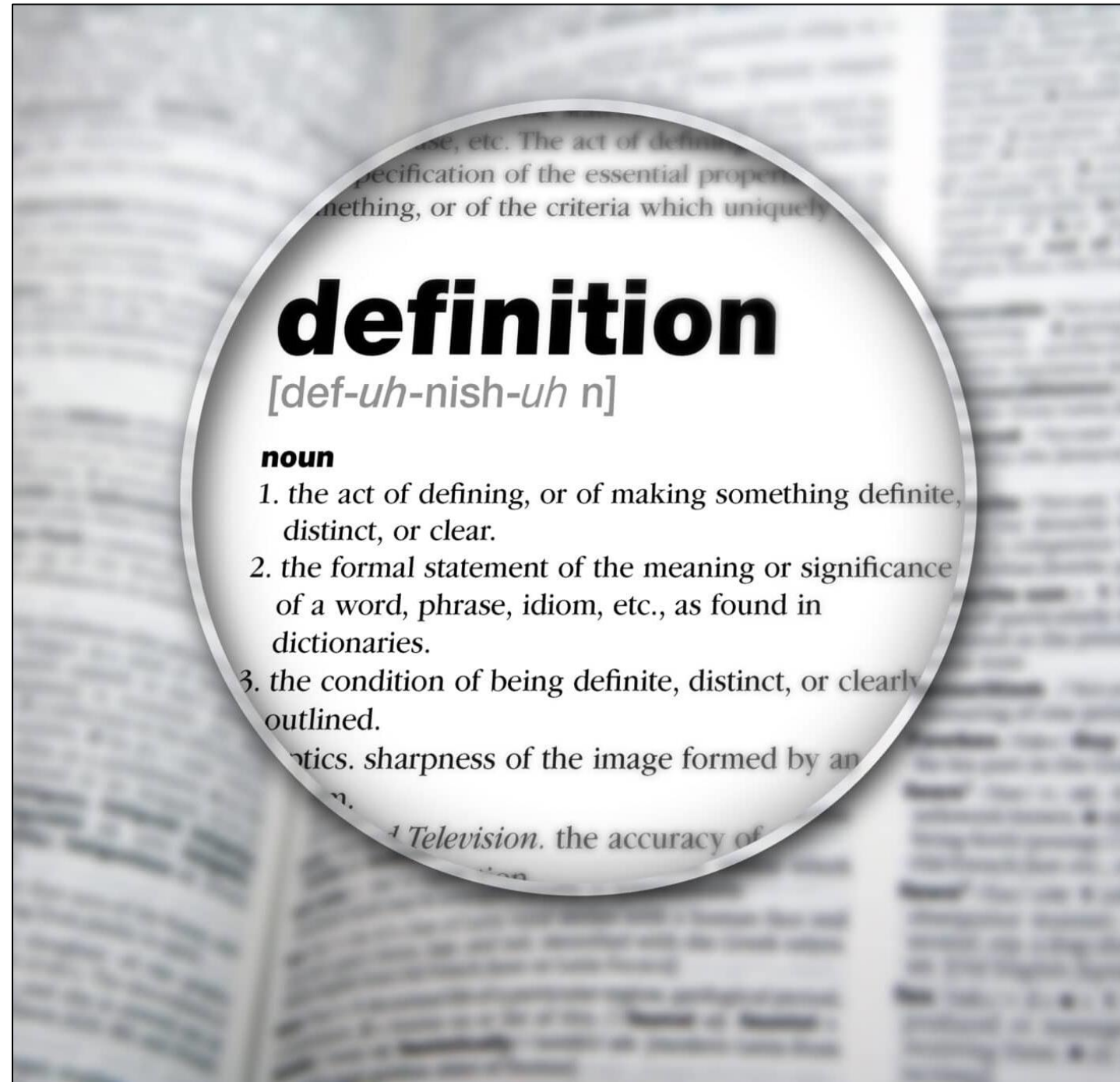
## Definitions, Beachhead Markets & Business Cases





# I. Introduction - Definitions

---



## ECE

Early Childhood Educators

Which encompasses preschools, licensed/registered childcare providers, Head Start programs, etc.

## Revenue

“Revenue is money that a company...receives from people.”

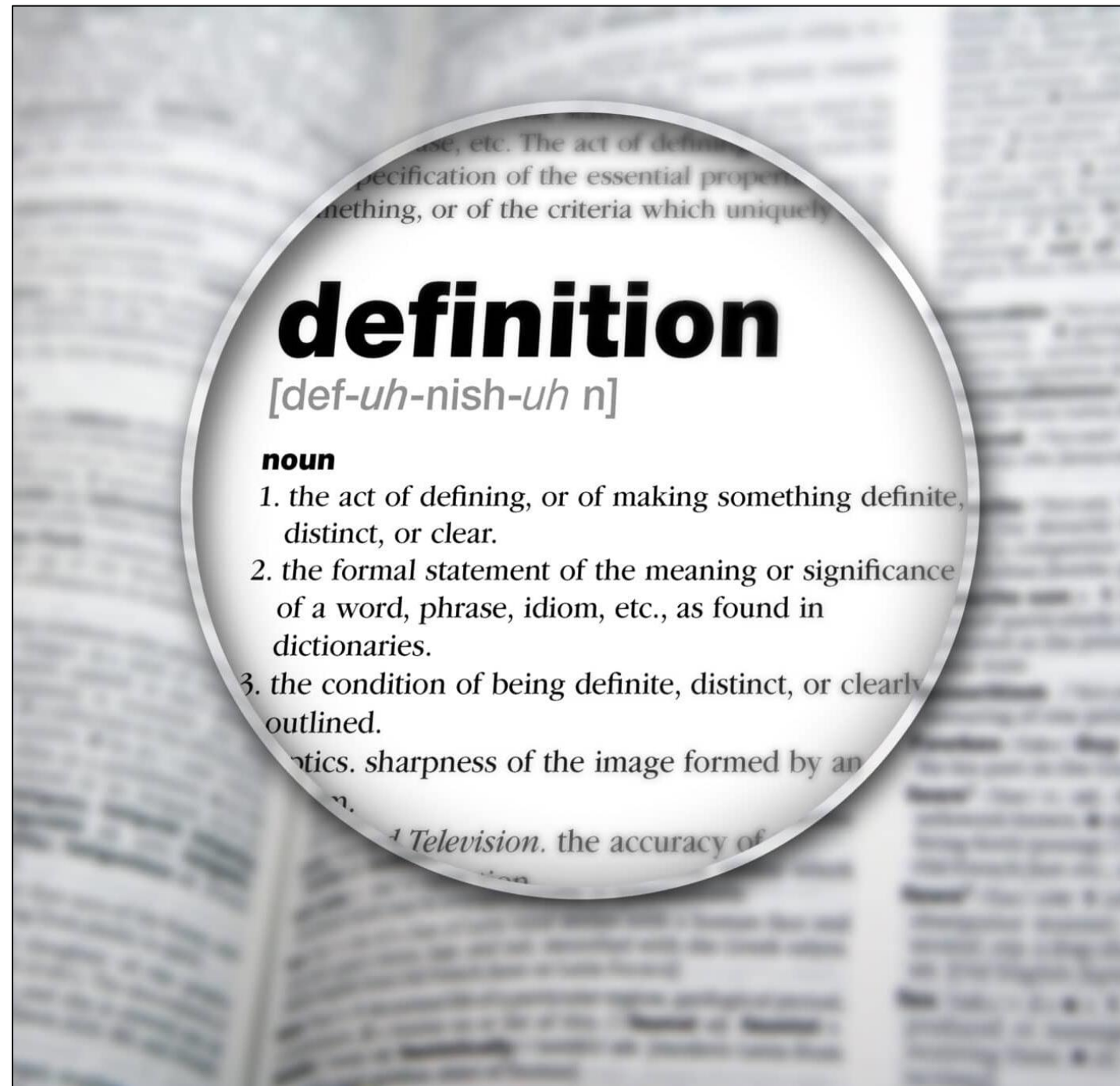
## Diversification

“When an organization...diversifies their range of something, they increase the variety.”

<https://www.collinsdictionary.com/us/dictionary/english/diversify-revenue>

# I. Introduction - Definitions

---



## Sources of Funds

Where money comes from, such as equity, debt, revenue, and other forms of income.

## Uses of Funds

Where money goes to, such as expenses, costs, and liabilities.

## “Revenue diversification

involves relying on different revenue sources and avoiding dependence on specific types of...sources.”

[https://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1032&context=pmap\\_facpubs#:~:text=Revenue%20diversification%20involves%20relying%20on,%3B%20Hendrick%20and%20Crawford%202014\).](https://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1032&context=pmap_facpubs#:~:text=Revenue%20diversification%20involves%20relying%20on,%3B%20Hendrick%20and%20Crawford%202014).)

# I. Introduction - Definitions

---

## Q #1: What do early education operators do?

A: They provide care & education services to children, generally from birth to age 5, as well as between ages 6-12.

## Q #2: Who are the customers of an ECE business?

A1: Children (End Users)

A2: Families (Target Market)

## Q #3: How do ECEs generate revenue?

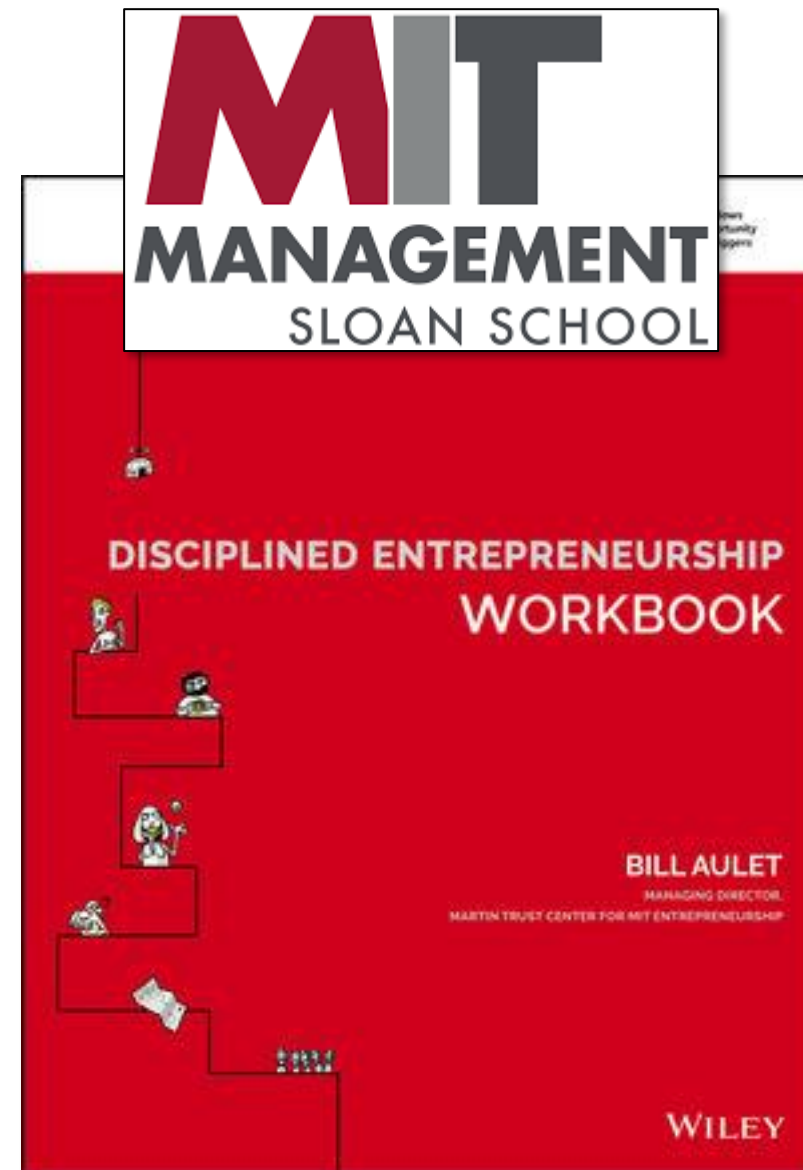
A: Tuition, fees, program participation.



# I. Introduction - Beachhead Markets



Bill Aulet, Managing Director of the Martin Trust Center at MIT Sloan School of Management



**The first product or service company sells.**

The goal is to “get off the beach” and into selling additional products & services to the same type of customer.

WEBSITE: <https://www.d-eship.com/>

MIT Article: <https://exec.mit.edu/s/blog-post/launching-a-successful-start-up-3-the-beachhead-market-MC7FUMDZ6IU5AIPP4WGIPN2PZJI4>



# I. Introduction – Beachhead Markets

---

**Q #4: In an ECE business, what is the “Beachhead” service?**

A1: Care

A2: Education

A3: Field trips

A4: Socialization

A5: Meals

**Q #5: What are the Sources of Funds for these services?**

A: Tuition, fees, program participation

**Q #6: Generally speaking, how is this working for most ECEs right now?**

A1: Revenue is insufficient to cover operating costs & rising wage/benefit demands.

A2: Not enough workers.



# I. Introduction – Business Case #1

## Example: What do pharmacies sell?

Pharmacies sell prescription drugs.



They also sell 'other stuff.'





# I. Introduction – Business Case #2

Then: One Product

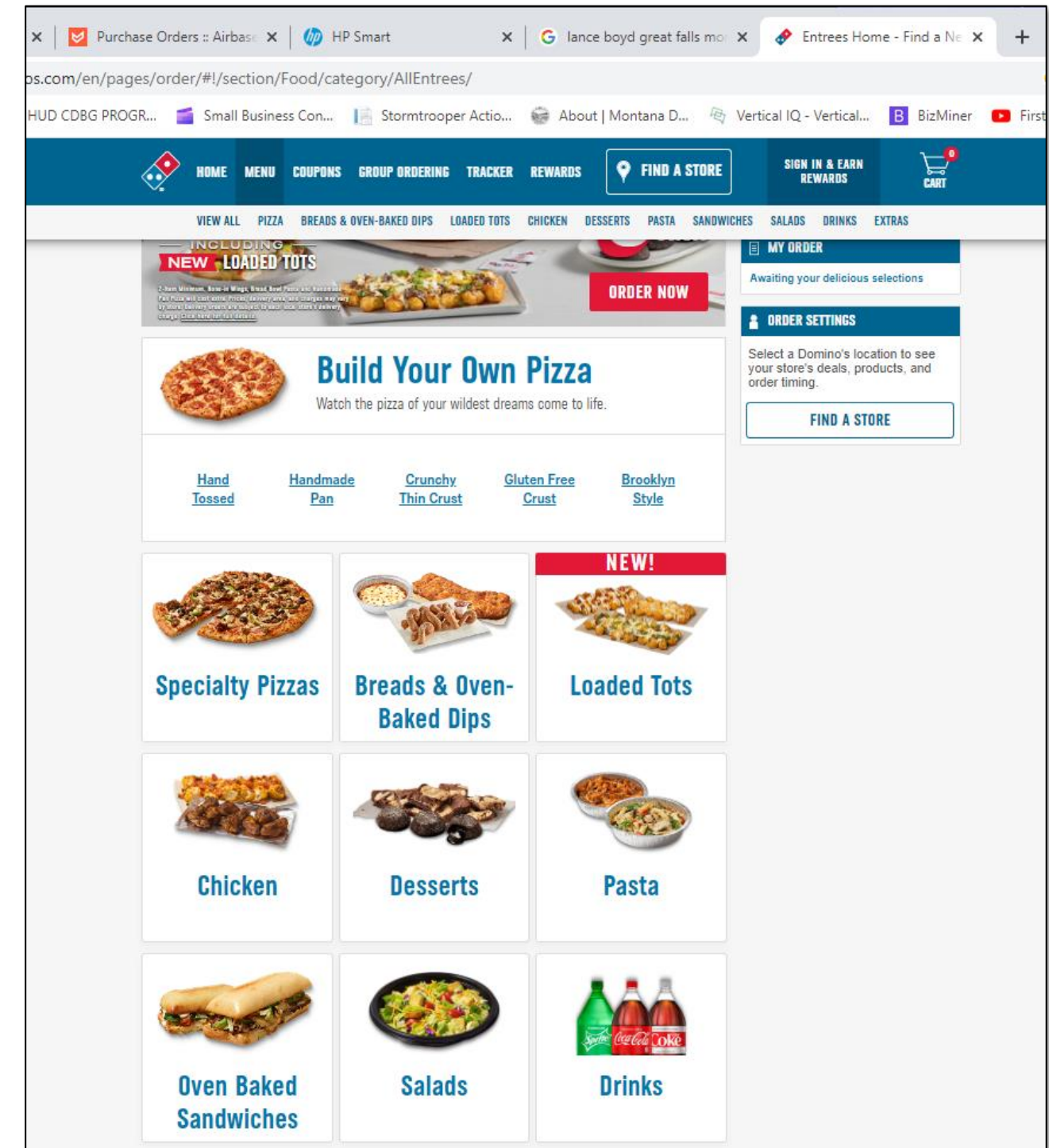


Example:



Tom Monaghan

Now: 10 Product Categories



# Part II:

How Do Businesses Generate Revenue?



# II. How Do Businesses Generate Revenue

---

**Businesses generate revenue in 2 ways**

Sale of Products

Sale of Services

## II. How Do Businesses Generate Revenue

---

**Q7: In Accounting, what is the sale of products or services called?**

**Earned Income**

**Q8: In other industries, when the sale of one product or one services is insufficient to cover expenses, what do those businesses do?**

**They Diversify!**

# II. How Do ECEs Primarily Generate Revenue

## Tuition Income

- Tuition – Ages 0-2
- Tuition – Ages 2-3
- Tuition – Ages 3-5
- Tuition – After School
- Tuition – Summer Program

## Program Income

- CACFP, EHSCP
- QRIS program

## Fees & Penalties

- Registration/Enrollment
- Transportation & Field Trips
- Late Fees & Interest

# II. How Else Can ECEs Generate Revenue

## Tuition Income

- Tuition – Ages 0-2
- Tuition – Ages 2-3
- Tuition – Ages 3-5
- Tuition – After School
- Tuition – Summer Program

## Program Income

- CACFP, EHSCP
- STARS to Quality

## Fees & Penalties

- Registration/Enrollment
- Transportation & Field Trips
- Late Fees & Interest

## Product Income

- Product Sales (diapers, toys, formula)
- Food Sales
- Book Fair Sales
- Learning Material Sales
- Merchandise Sales
- Class Photos, Yearbook Sales

## Rental Income

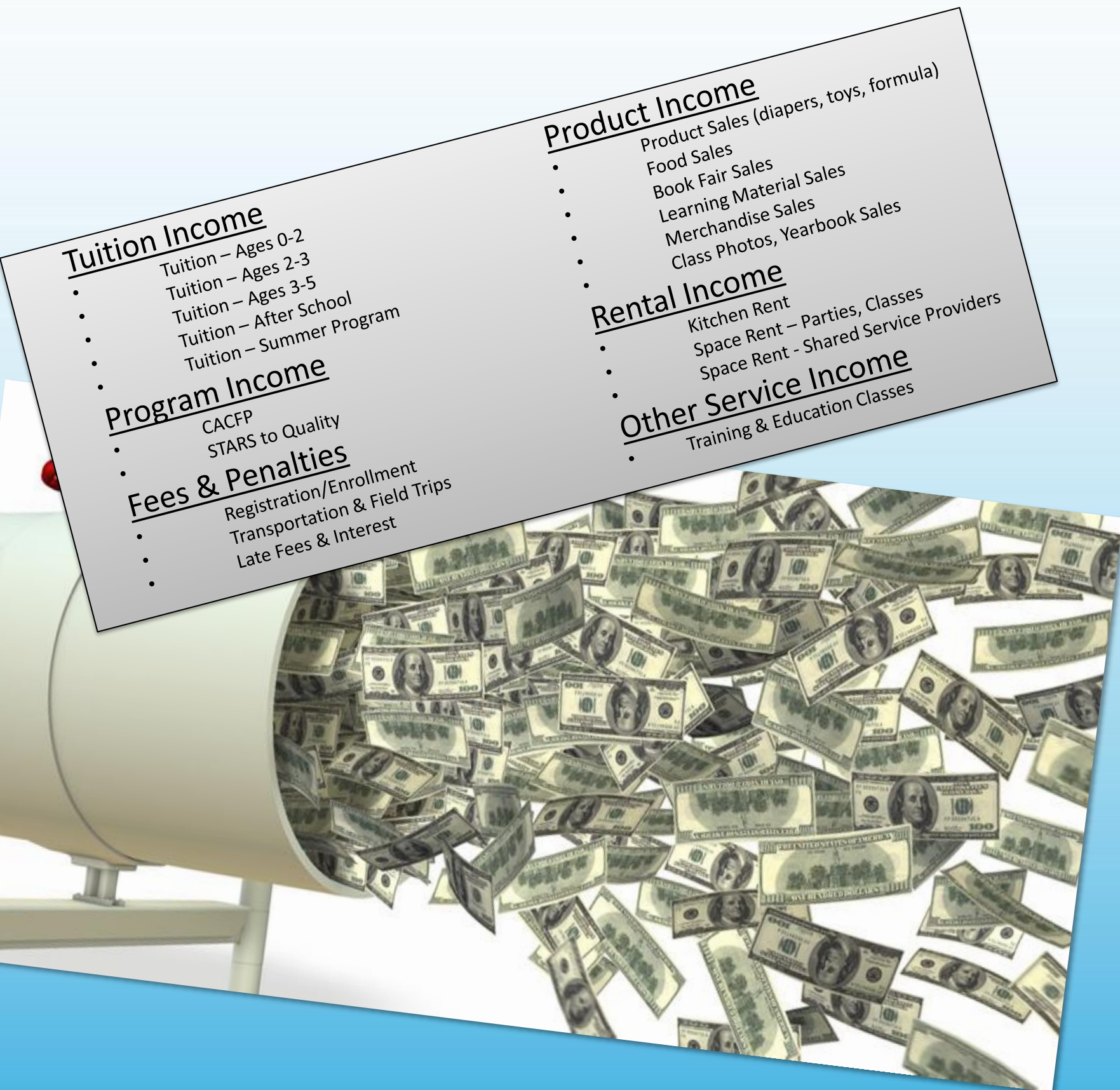
- Kitchen Rent
- Space Rent – Parties, Classes
- Space Rent - Shared Service Providers

## Other Service Income

- Training & Education Classes



# II. Other Ways Businesses Generate Income



## Not all Income is Revenue!

- Earned income: Generated through the sale of the business' primary purpose (aka: Revenue)
- Other income: Unearned income to do other things, including:
  - Fundraising
  - One-time financial incentives
    - Such as: IWT, BSTF, RBDG
  - Sale of old assets

# Pause...What About Grants?

**This is the most Frequently Asked Question I've received over 10 years.**



Businesses are not sustainable if they are not financially viable.

In a free market economy, as we have in the United States, it is not the responsibility of the government to prop up private entities.

It does happen in the agriculture sector and it happened during the pandemic, but it is private sector's responsibility, not government's, to ensure that private businesses are financially viable.

Therefore, stop looking at 'grants' as the solution to not operating profitably and cash flow positive.

We must change this mindset and the narrative we've somehow been conditioned to believe. Grants are not for operations. They are one-time uses of funds to incentivize some specific action. And they aren't for for-profits!

Chasing grants is a rabbit trail that often leads to nowhere. Time is better spent focusing on generating revenue and managing expenses.





## II. During the Early- Stages of the Pandemic

### We learned about “Pivoting”

Being able to ‘pivot’ required agility.

Agility is about knowing your  
customers.

We talked to business owners about  
‘Changing Consumer Behaviors.’



# II. Other Ways Businesses Generate Income

Those of us who truly contemplated this question of  
'Consumer Behaviors' asked the questions:

What Assets to businesses have?

Why do businesses hire employees?

Most importantly...

Why do businesses invest in assets and humans?

**...to Generate Revenue, specifically Earned Income.**

As we look at our businesses and recognize that inflation is happening, our workers are changing, and our customers have already changed, the ECE industry must adapt and innovate to ensure we are meeting the needs of our constituents.



# II. Case Study #3 - How are K-12 Schools Funded?

**Total overall OPERATING revenue = 100%**

## Uses of Funds – Delivery of Services to Students:

- Employee Salaries
- Employee Benefits
- Instruction Supplies
- Operating & Cleaning Supplies
- Administration
- Support Services to Students
- Debt Service/Loans
- Extra Curriculars
- Repairs & Maintenance
- Utilities
- Insurance
- Etc.

## Sources of Funds – Public/Non-Public:

State of Montana:	87.5%
Generated Revenue:	12.5%



# II. Case Study #3 - How are K-12 Schools Funded?

## How is additional, generated revenue spent on OPERATIONAL COSTS?

What are mill levies and bond initiatives for?

How do PTAs & Foundations raise money?

What types of community partnerships make sense and for what purpose?

What else do individual schools do to raise money?

### Uses of Funds

#### Operating Expenses in K-12

- Food
- Employee Salaries & Benefits
- Classroom & Instructional Supplies
- Operating & Cleaning Supplies
- Administration, Legal, Professional
- Car, Delivery, Travel
- Debt Service/Loans
- Repairs & Maintenance
- Utilities
- Phone & Internet
- Insurance
- Bank, Merchant Fees
- Subscriptions, Licenses
- Other & Miscellaneous

### Sources of Funds

#### Tuition Income

- Tuition – Ages 0-2
- Tuition – Ages 2-3
- Tuition – Ages 3-5
- Tuition – After School
- Tuition – Summer Program

#### Program Income

- CACFP & EHSCP
- STARS to Quality

#### Fees & Penalties

- Registration/Enrollment
- Transportation & Field Trips
- Late Fees & Interest

#### Product Income

- Product Sales (diapers, toys, formula)
- Food Sales
- Book Fair Sales
- Learning Material Sales
- Merchandise Sales
- Class Photos, Yearbook Sales

#### Rental Income

- Kitchen Rent
- Space Rent – Parties, Classes
- Space Rent - Shared Service Providers

#### Other Service Income

- Training & Education Classes

# Part III:

## Problems in ECE Right Now



# III. Problems in ECE Right Now

## Innovation Equation

What is  
innovation?



## Entrepreneurial Opportunity

**Opportunity = Problem + Solution**

- What is it?
- Where do you find it?
- How do you know you've got it right?

Marketplace?



INNOVATION is a process, not simply an act of genius.



INNOVATION is a process rooted in the identification of problems, the development of solutions, and the ability for those solutions to be accepted by and produce benefit within the marketplace.



# III. Problems in ECE Right Now

## These Problems are Widely Known & Accepted in ECE

### #1 Cost of Care to Families

- Inflation
- Wages
- Insurance
- Rent
- Interest
- Cost of goods increasing

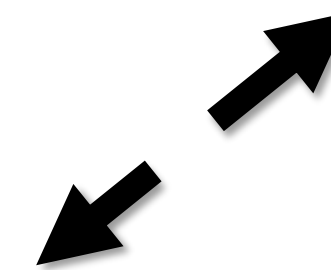
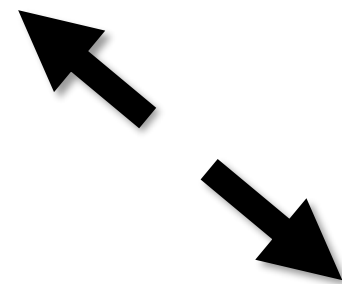
### #2 Attracting & Retaining Staff

- Compensation Expectations
- Culture Expectations
- Industry Turnover
- Increased competition across sectors for same talent



### #3 Cash Flow

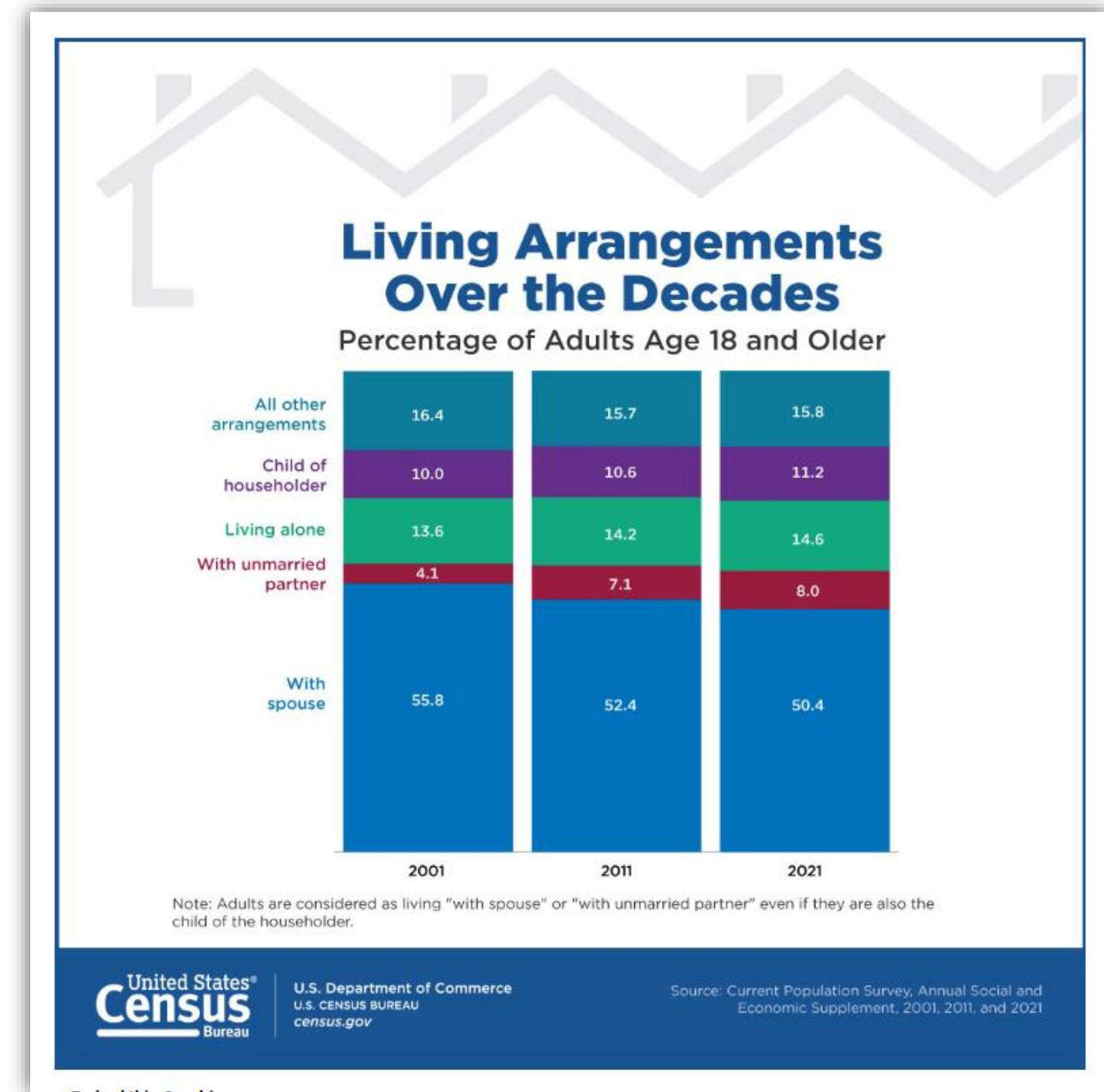
- Pandemic Stimulus Offramp
- Business Management
- Financial Management
- Business Accumen



# III. Problems in ECE Right Now

## US Census Bureau

- Between 2001-2021, people living with spouses or unmarried partners is falling.
- 2001: 60% of households (with spouse or unmarried partner)
  - 55.8% married
- 2021: 58.4% of households (with spouse or unmarried partner)
  - 50.4% married (change of 5.4%)



# III. Problems in ECE Right Now

**“If you can’t staff it, you can’t do it.”**

- Student-Teacher Ratios
- Insufficient Enrollment in some ECE Academic Programs
- Low Wages Leads to Turnover
- Fewer Households are 2 Incomes
- Fewer Households are Married Households
- Competition for Talent with New, More Financially Stable Industries



# III. Problems in ECE Right Now

## Who are ECEs Competing with for Talent?

Corporate Retail

Food Purveyors

Banks

Public Schools

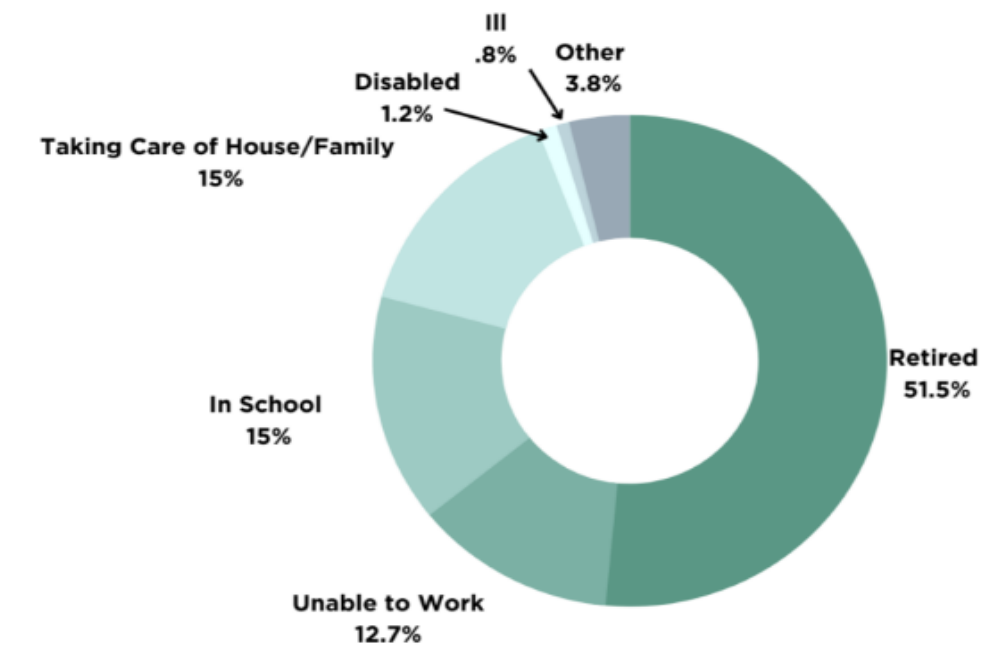
Other ECEs who've figured it out

Plus...there are 1.7 jobs for every 1 worker participating in the workforce

### BARRIERS IMPACTING LABOR FORCE PARTICIPATION FOR INDIVIDUALS AND GROUPS

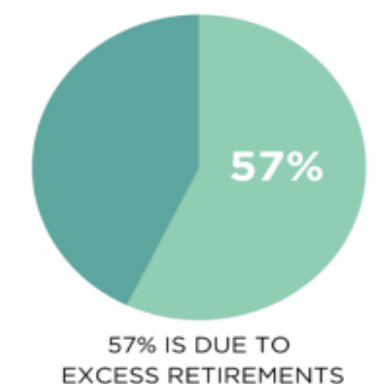
The Current Population Survey, the key source of data for BLS's monthly job reports, asks respondents who report being out of the labor force to choose a primary reason why. The chart below shows the reasons provided and the percentage of respondents who identified with each (as of February 2022):<sup>13</sup>

Figure 5: Reasons for being out of the labor force



Post-pandemic, a Congressional Budget Office analysis reveals a current labor force shortfall of roughly 3.5 million "missing workers". Excess retirements during the pandemic – retirements exceeding what would have been expected from simple population aging – account for an estimated 2 million of the 3.5 million shortfall. Prompting these early retirements are health concerns, the cost of finding new employment (for those who may have been laid off), and rising investment and housing values that increased wealth. Slower than expected growth in the working-age population, primarily due to lower immigration levels and a surge of deaths from the pandemic, accounts for much of the rest of the shortfall.<sup>7</sup>

#### LABOR FORCE SHORTFALL OF 3.5 MILLION



**Outlook.** BLS projections show labor force participation dropping further through 2029 to 61.2 percent, for multiple reasons:

# III. Problems in ECE Right Now

## What is the #1 Problem to Solve?

- To be sustainable, businesses must be financially viable.
- To be financially viable in a service industry, workers are top priority.
- If worker's expectations for compensation, benefits, and culture are changing, ECEs must be agile and pivot to those expectations first.

**Because...“If you can't staff it, you can't do it.”**

# III. Problems in ECE Right Now

## Compensation is the #1 Problem

In order to attract and retain Childcare Workers in the Industry

- Make the occupation a career option
- Pay higher wages
- Offer benefits
- Address workplace culture

*“Not paying adequate wages to support a stable, skilled workforce is irresponsible to the millions of children needing care. Asking middle and working class families to pay even greater shares of their income is not feasible. Meanwhile public policies increasingly push parents into the workforce making the availability of affordable quality child care that much more critical.” - Martin Levine*

***“Addressing this income discrepancy would encourage more students to pursue an ECE degree.”***

Amy Watson - MTDLI State Economist



# Part IV:

## The Reality of Revenue & Costs in ECE

# IV. The Reality of Revenue & Costs in ECE

**How do we increase revenue, in addition to raising rates?**

**#1** There is no alternative to staying current with rate adjustments.

**#2** It is not either/or, tuition increases vs. revenue diversification.

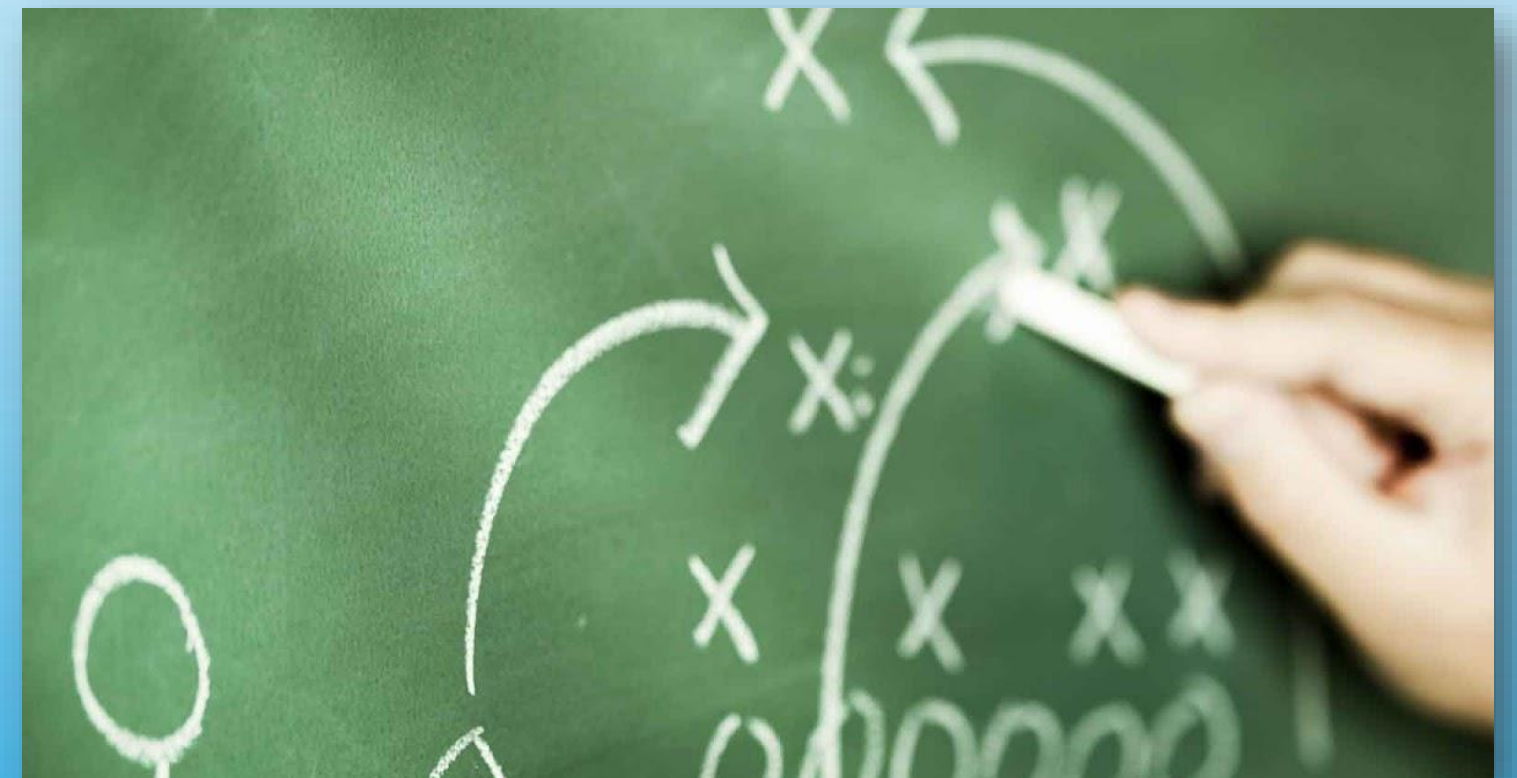
**#3** Tuition/rates need to be cost informed, not solely informed by competition, market rate surveys, or Best Beginnings reimbursement rates!

# IV. The Reality of Revenue & Costs in ECE

**How do we increase revenue, in addition to raising rates?**

START WITH STRATEGY!

- Treat ECE businesses like any other business in any other industry
- Plan to generate sufficient revenue to cover costs of operation
  - Plus...profit, compensation to owners, working capital to the company, and capitalize a sweep account for unknown expenses.
- Budget for knowns and unknowns
  - Like 200% insurance premium increases



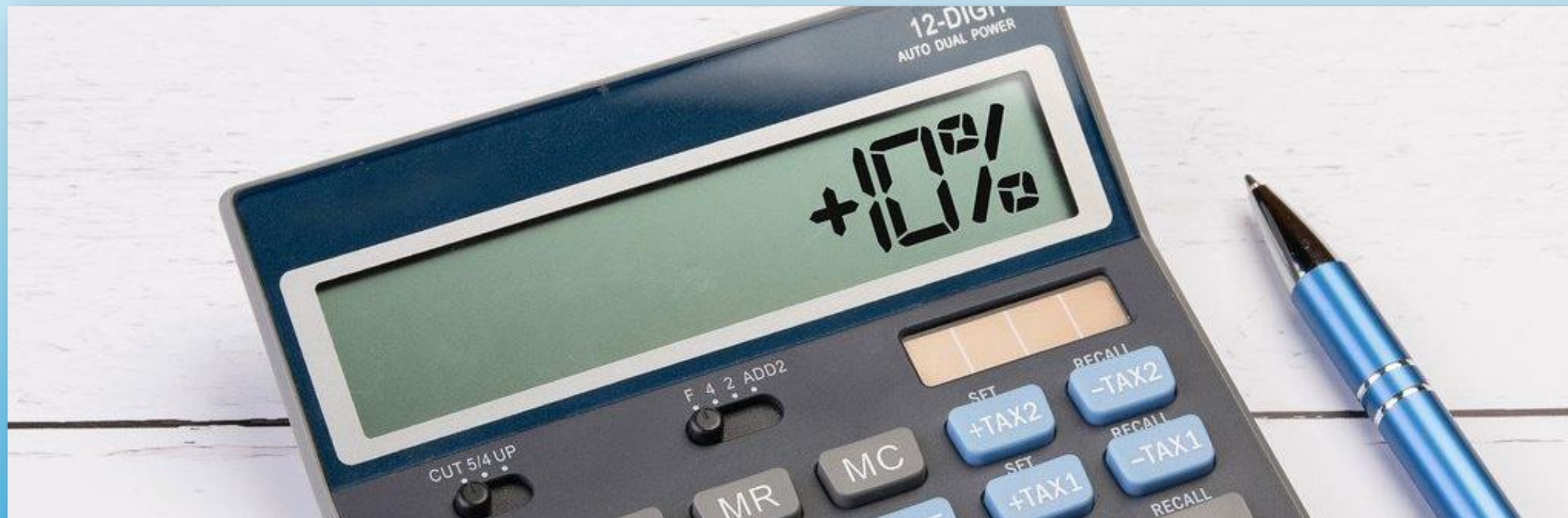


# IV. The Reality of Revenue & Costs in ECE

**How do we increase revenue, in addition to raising rates?**

WHAT EXACTLY AM I ADVOCATING FOR?

- Know your customers
- Add 10% new revenue/earned income from non-tuition-derived sources



# IV. The Reality of Revenue & Costs in ECE

## What are the ways to diversify revenue?

Start by thinking about the foundations of business

### Analyze

- Company Assets
- Company Human Resources
- Existing Customers
- Accessing New Target Markets

### Increase

- Asset Utilization
- How Staff Expertise is Utilized
- Community Partnerships
- Creativity & Innovation

# IV. The Reality of Revenue & Costs in ECE



## 3 BUSINESS FUNDAMENTALS:





# IV. Use Money Management Tools

---

## Four Money Management Tools

### **1 – Bank Accounts**

- Operating Accounts
- Sweep Accounts
- What you have in the bank right now is not a sufficient financial management tool alone.
- Profit is also not an indicator of financial health.

### **2 – Bookkeeping Programs**

### **3 – Childcare Management System (CMS)**

### **4 – Financial Management Team**

# IV. Create Money Management Systems

---

**1 – Budget – Looking Forward**

**2 – Financial Statements – Looking Backward**

**3 – Reconcile – Every month, by the 10<sup>th</sup> of the following month**

**4 – Review – With internal or external team members**

**5 – Industry Benchmarks – Compare Yourself to Others**

**6 – Understand Timing – Manage when cash comes in/goes out**

# Part V:

## Conclusion & Discussion





# V. Conclusions & Discussion

## Lead with Innovation in Mind

**ExchangeEveryDay**  
Your free source of early childhood inspiration and news.  
05/25/2023

### Coping with the Fiscal Cliff: Diversifying Revenue Funds

It is not light that we need, but fire; it is not the gentle shower, but thunder. We need the storm, the whirlwind, and the earthquake.  
– Frederick Douglass, 1818-1995, Abolitionist and Statesman

In response to [our May 19 message](#) about the fiscal cliff as American Rescue Plan Act (ARPA) funds come to an end, Jason Nitschke, of Zero to Five Montana, wrote:



In response to [our May 19 message](#) about the fiscal cliff as American Rescue Plan Act (ARPA) funds come to an end, Jason Nitschke, of Zero to Five Montana, wrote:

In Montana, we have been working to support the agenda of increased public support of families and providers. However, it is critical for providers and childcare support organizations nationwide to start talking about how providers themselves can diversify revenue by modeling how K-12 public schools generate revenue to support operations. Revenue diversification strategies (aka: selling other stuff) is the fastest way for providers to off-ramp from stimulus funds. Raising rates is one thing. Diversifying to make money other ways is another. Our role as support organizations **must** include messaging that bringing non-public, non-grant, non-foundation-based revenue into programs is critical to their own viability. While we support increased public subsidy, that message is conditioning providers to believe that public funds are the solution and are imminent. They aren't until they become more than talk. Empowering childcare providers to be fully

Thank you

Gary Romano <gary@civst  
To Jason Nitschke

You replied to this message on 5/25/2023 8:32 AM.

Hi Jason,

I was so pleased to reach your comment in Exchange - so very important and one our team has been espousing in our multi-state work with providers, but is not heard nearly enough!

**Gary Romano**  
President & CEO, Civitas Strategies, LLC

617-388-5461 | [www.civstrat.com](http://www.civstrat.com) | [gary@civstrat.com](mailto:gary@civstrat.com)  
1 Hampton Court Lynnfield, MA 01940

Thu 5/25



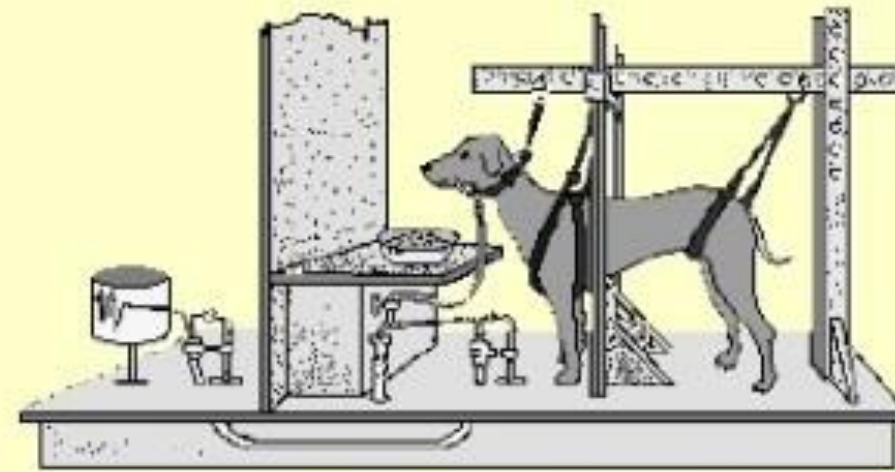
# V. Conclusions & Discussion

Echo chamber of status quo, scarcity or fixed mindset, or Pavlov's Dog!

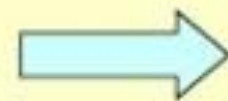


Ivan Pavlov

## Classical Conditioning: The Elements of Associative Learning



Conditioning  
Trial:



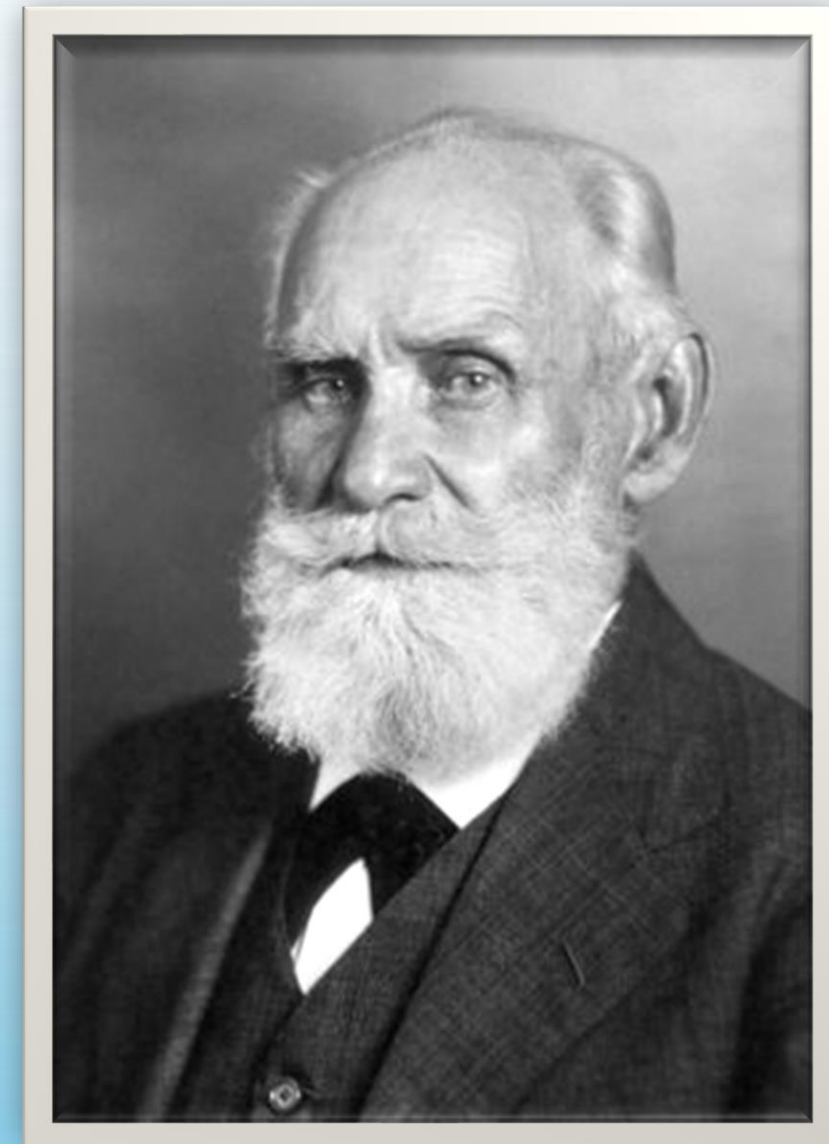
Salivation



Test Trial:



Salivation



# V. Conclusions & Discussion

---

ECE businesses must start to think like business owners.

We must change the narrative & scarcity mindset.

The government is not going to come save us.

Grants to **operate** a business do not exist.

Get off the beach!





# Connect with Business Connect!

Website:

[ChildCareBusinessConnect.com](http://ChildCareBusinessConnect.com)

Email:

[JasonN@ZeroToFive.org](mailto:JasonN@ZeroToFive.org)

Formally Request Assistance:

<https://mtsfdc.ecenterdirect.com/signup?centerid=21>

Schedule a Meeting:

<https://jason-nit.youcanbook.me/>

Newsletter:

<https://zerotofive.org/take-action/>

Social:



@zerotofivemt



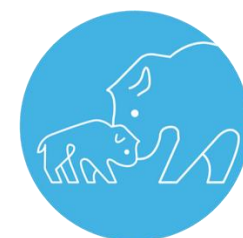
@zerotofivemt



@ZeroToFiveMT



@zerotofivemontana



ZEROTOFIVE  
MONTANA







**time for discussion**