# Team Steps to Success

Skills for running and sustaining your childcare business



Pricing your childcare service



# Welcome to 'Team Steps to Success'

**Team steps to success'** is a series of guides, which are aimed at improving the sustainability of all forms of childcare businesses.

The guides are primarily for 'Team Managed' childcare settings, but they might also be useful for some childminders.

Team managed childcare settings range from privately owned settings to ones which are run by a voluntary management committee.

#### About the guides

The guides contained within the 'Team Steps to Success' series are useful for all childcare settings whether they are:

- Privately owned or voluntary managed
- Profit making or 'not for profit' groups
- Charities, cooperative organisations, private companies, social enterprises, maintained childcare settings or any other form of childcare business

As you would expect these guides contain many references to business concepts, words and phrases, in particular the words 'profit' and 'surplus'.

However, it's important to note that the guides are **not just** about making a profit in a private sector environment, far from it!

They actually refer to good business practices, which will enable your childcare setting to remain sustainable, whether or not you choose to invest all your surpluses back into providing a better childcare service.

## Definition of 'Sustainability'

- The ability of a childcare provider to continually maintain its business.

## Definition of 'Team managed'

- A team managed business is one which employs more than one person and is generally managed by a team of people, such as a nursery, playgroup or out of school club.

Did you know?
The word 'profit'
originates from the Latin
word 'profectus' and the
old French word
'proficere' meaning to
'progress' and
'advance'.



#### Consider the following

All group childcare settings have the following in common:

- Parents pay for a childcare service
- Staff are employed
- Premises are rented or owned
- Costs are incurred

Whether your childcare group is profit making or not, it's essential that all costs are covered and some surpluses are generated to keep the provision sustainable for the future...

These guides can help your organisation begin to do that.

What kind of childcare settings are these guides designed for?...

- Nurseries
- Out of school groups
- Holiday play schemes
- Breakfast clubs
- Playgroups
- Pre-school groups
- Crèches

to name but a few



## How to use this guide

**Team Steps to Success** is a series of four guides and a foundation module, that are aimed at **'team managed'** childcare businesses. The four guides cover the key business issues, drawing on best practice in business support. They build on the **'foundation'** module, **'Planning for business success'**, which is designed to be used as a reference point as it contains the practical planning techniques for applying the concepts covered in this guide.

#### Planning for business success

Planning is the foundation of the Business Success for Childcare guides and this module defines the key principles of business planning. The module is designed to be read first, as it shows how you can plan and implement ideas and concepts contained in this guide.



'Pricing your childcare service' offers ideas, thoughts and techniques around pricing your childcare service. It offers practical examples of how to calculate your costs and develop sound pricing strategies to maximise parental choice and revenue from fees.



Steps to success emphasise Key points.

Throughout this guide there are information and action points labelled 'Steps to Success'. These items are particularly important because they aim to prompt your thinking. There are also a number of 'Stepping Stones' that will direct you towards useful sources of guidance and advice. There is a useful summary 'Stepping Stone' at the end of this guide. The guide also contains a number of practical aids and simple exercises to help you plan and prepare for the future. To get the best from the guide, complete these as you come across them.



Stepping stones point you in the direction of additional help available.



# Welcome to 'Pricing your childcare service'

It's important for every childcare business to cover its costs and ensure its long term survival. A key element in achieving this is setting the right price for the childcare service you provide.

The first part of setting your prices is understanding and managing your costs. After all, until you know what your costs are, it's hard to identify the pricing strategy that best suits your setting.

This is often a difficult area for small businesses to manage. The true cost of delivering a service often comes as a shock to many businesses - particularly when you take into account future investment requirements and the money required to cover short term contingencies. Any childcare provider will also know how difficult it can be to raise prices!

Pricing strategies allow you to offer parents choice and flexibility whilst ensuring you stay in business. Consider mobile phone companies, they offer two distinct pricing methods, a contract with a set amount of talk time and a 'pay as you go' option. The first attracts and benefits people who want to use a mobile phone regularly; 'pay as you go' benefits people who use the phone infrequently and they consequently pay less.

This is a pricing strategy - they're designed to maximise the number of customers attracted to using a service by offering choices and flexibility. This guide will help you to develop effective pricing strategies.

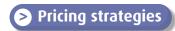


# Pricing

To help you generate enough income to more than cover your weekly costs this section covers some of the pricing strategies that are relevant to the childcare market. It also looks at key factors you should consider when setting your price including:

- Pricing strategies
- Setting prices
- Working out costs
- Some ideas
- A pricing policy
- Planning for success
- Stepping stone
- Template Cost checker





# Pricing strategies

#### So, what is a pricing strategy?

#### Definition:

A pricing strategy describes the way in which you set charges to reflect the services you offer, so that however parents choose to use the childcare you offer, you'll still cover all costs.

#### Pricing strategies recognise that:

- Parents want choice if they're not presented with choices then they may seek alternatives and look for other childcare provision
- To maximise profits, it's necessary to maximise income
- Offering a range of services, (day care, after school sessions, playgroup sessions, collections, etc) can result in a range of charges to match

#### Your capacity

To maximise revenue every business needs to maximise its capacity. Capacity for childcare providers is generally speaking, the number of full places offered, the number of sessional places offered or the number of hours offered.

To maximise capacity it's necessary to fill all your places, with children. That's why a pricing strategy that recognises the services you offer will inevitably enable you to maximise revenue.





The activities of other childcare providers should be considered when setting your price.



Remember! Everyone makes choices about quality and this is equally as important as price when parents select childcare.

#### Other influences

Unless you're very lucky, you'll have other childcare provision in your area competing for the services you provide. When parents consider your service against others, one of the things they'll compare is your price. It's important, therefore, to check regularly what other providers charge, so you know what difference there is, if any.

Don't just focus on price and price alone. When comparing what other childcare providers charge, examine how good their service, facilities and staff are compared to yours. For example, look at their opening hours to see what flexibility they offer.

Your price should reflect the value you offer. So, if you've got the best service in the area, don't be afraid to charge the highest price. Remember that offering the cheapest price is not necessarily the best strategy. In fact, if your prices are too low, parents may wonder why.

Once you have set your prices it's important to review them regularly. You need to take account of inflation and events such as new competitors in your catchment area.



## **Pricing structures**

There are a number of strategies that can be adopted when setting a price, some are highlighted below:

#### **Hourly fee**

This is a good way to split up the service and potentially offer customers flexible childcare arrangements. Beware though, it's important to have a minimum charge so that you can cover the costs of your service. It's equally important that you charge enough hours per day to cover all your costs.

- Work out how many hours a week you need to cover all your costs and make sure that you're always reviewing demand for your minimum requirement to avoid losing money.
- If you are a nursery and you charge by the hour and many parents only want a few hours in the day, it may leave some hours when you have few children, but you still have your costs to cover so make sure you're able to either attract parents during the hours of spare capacity or charge a rate that reflects this selective use.
- If you are an out of school club or playgroup and parents want only a part of your full session, if you charge by the hour make sure that you can cover all the costs of your staff who will have to be employed for a full session.

#### Session fee

A session can be any part of a day that you wish to offer as a block of childcare. Charging for each session is easy to understand and apply. Out of school clubs and pre-school playgroups by their nature are organised into 'sessions', but full day care providers like nurseries often offer shorter sessions, usually half days, to maximise capacity and revenue. This means you need to attract parents with different requirements to ensure that you fill both morning and afternoon sessions.

Offering half day sessions will affect your ability to take full day care children, so
make sure that you can fill all the sessions each week.



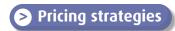
There are many more ways to price your childcare service. The examples shown are ideas for you to work with and it's important to use one that suits your business.

Work out how many half-day sessions a week you need to cover all your costs, and
make sure that you're always reviewing demand for your minimum requirement to
avoid losing money.

#### **Block pricing**

Charging parents for a 'block' of care can be a good way to get guaranteed income over a long period, offering parents easier ways to pay, like by direct debit or post dated cheques. The idea is that a parent would pay for a fixed term, (one month, three months, etc). This encourages parents to plan ahead and pay for the block in a convenient way.

- To avoid losing money if children do not turn up, cancellations could be 'non refundable' or 'part refundable', (your own policies here are important, you may wish to give full refunds for particular circumstances, illness, etc, but don't make a loss as a result of it).
- Booking in advance helps you to fill capacity and try and fill any gaps you have.



#### Membership

You can offer parents the chance to become members of your business for the duration of the time that their child is with you. Membership is ideal for regular users of childcare.

- As members parents have the benefit of receiving a preferential rate for the childcare service.
- Occasional users would pay the normal rate.
- The business receives a guaranteed income, improving its sustainability and ability to successfully plan for the future.

#### Discounting schemes

Offering discounts of any kind is fine as long as the discounted rate still allows you to cover costs, wages and make a surplus.

- Before discounting, ask yourself, 'Why?' What benefit does a discount system give to you or your customers?
- Calculate the effects of any discounting scheme you may be considering and make sure that discounted prices allow you to cover all costs and make a surplus.





# Setting prices

Some of the different pricing strategies have now been outlined, but how do you recognise which is the most beneficial to your business? How do you build a pricing strategy for your business?

#### Use the information that you already have

Registers - your registers contain information about when children have attended sessions. This information allows you to work out the revenue you receive from parents for sessions or full days and lets you see which children attend every session and which may attend only occasionally. This is a simple 'sales analysis'. You're analysing the ways in which your service is used, or put another way you're building a 'demand profile' for your business. Having this occupancy information allows you to then look at the ways in which you can modify your pricing strategy to ensure you meet parental needs while also maximising your revenue from fees.

Advance booking lists - just like registers, by looking at your advance booking lists, you can identify the ways in which parents intend to use your services in the future weeks and months. This allows you to continually review your pricing strategy.



**Forecasts** - forecast information is useful when you're trying to estimate your future occupancy trends, as it enables you to predict the revenue you'll collect from fees more accurately. This forms a critical part of your business planning review process.

#### For example,

If the past year shows that in your out of school club:

80% of parents chose full after school sessions 20% of parents chose breakfast and after school sessions and 5% of parents received a 'sibling' discount

You're able to accurately forecast what the next year's income is likely to be, under your current pricing strategy.

#### Do real calculations

When you've identified the ways that parents may choose to use your service, don't just apply a pricing strategy accordingly. Take time to calculate the effects that this will have on your income. Using the estimates you have made and the knowledge of your customers, calculate the exact revenue that you expect to make once you've implemented your changes in pricing strategy. This figure should be then compared against your costs to ensure that you're still making a surplus. If you're unsatisfied with the new figure then it will be necessary to revisit your pricing strategy.

#### Ask yourself questions

The ways in which you can charge for childcare are endless, so ask yourself:

- What if, in the next six months you have five new children starting on a 'sibling discounted rate?'. Will you still cover your costs?
- What if, you decide to offer a reduced fee for parents who have expressed a desire to
  collect their children an hour early and 60% of parents take up that offer? Will you still make
  enough money to cover your costs?
- What if you offer more hourly sessions and ten extra children attend? Do you need more staff and can you cover the extra cost?
- What proportion of children can you care for on a day care basis and how many on a sessional basis to maintain your child / staff ratio and maximise your capacity and revenue?
- Using your current pricing strategy, what would be better, to have more children using full day care or more children using shorter sessions?
- Is it better to charge parents a total fee for breakfast club and after school club together, or charge for them both as separate sessions?



# Working out costs

#### What are your real costs?

To make sure your childcare service doesn't make a loss you need to cover all your costs and have some money left over. A good starting point for any analysis of your business, therefore, is to understand your **costs**.

It's not just about controlling them. Understanding them will also help you set your fees properly to ensure you charge enough to make a profit or surplus for re-investment in the business.

Working out your costs requires a bit of work but isn't difficult. Have a look at the 'Cost checker' - which is found at the back of this guide. When you complete it, follow the instructions on the example and go through it line by line. It's best to use actual figures if you have them. If not, make a realistic judgement of what you believe they are. The objective is to reach a clear understanding of all your weekly costs.

Once you have completed the 'Cost checker', you'll be able to accurately identify your weekly costs. Once you have confirmed these costs, you'll have a good idea as to what your minimum fee should be, to ensure that you at least cover your costs and break even.

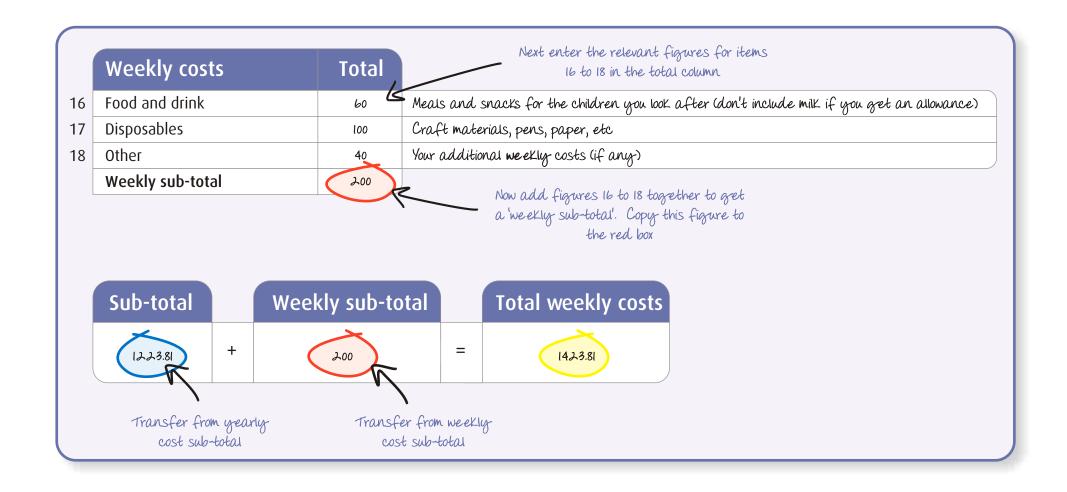


The starting point when setting your price is having a full understanding of your costs.



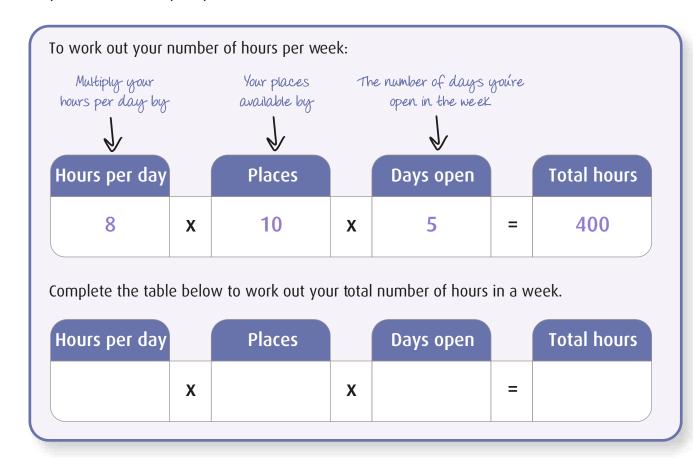
## **Cost checker**

	Yearly costs	Total	Start by entering the relevant figures  for items 1 to 12 in the total column		
1	Registration/membership fees	300	The amount you pay to register as a childcare provider or to professional organisations		
2	Public liability insurance	500	The amount you pay for public liability		
3	Employee liability insurance	500	The amount you pay for employee liability insurance		
4	Premises	4000	The amount you pay for rent or if you own the premises as a mortgage repayment		
5	Council tax	600	Your annual rate		
6	Utilities	1,000	Electricity, gas, water		
7	Office equipment	1,000	Desks, computers, stationery, etc.		
8	Marketing	1,000	Advertising, leaflets, brochures, etc.		
9	Wages	38,000	Your total annual wage costs including NIC, tax and benefits		
10	Additional staff costs	۵,000	Recruitment, training, etc.		
11	Toys and equipment	1,500	Toys, books and safety equipment		
12	Other	1,000	Your additional greatly costs (if any)		
13	Total yearly costs	51,400			
14	Number of weeks	42			
15	Sub-total	1,223.81			
	Number 14 should be the number of weeks your business operates in the year		de total number 13 by total number 14  Now add figures 1 to 12  get a sub-total (15). Copy this figure together to get a 'total  into the blue box across the page yearly cost' (13)		



## **Hourly fees**

Having completed the 'Cost Checker' and arrived at your figure for your weekly costs, working out how much you need to charge per hour to breakeven is straight forward. Simply divide your weekly costs by how many hours you can charge for in a week. This is your maximum capacity.



To work out what you need to charge per hour at maximum capacity:



Total weekly costs		Total weekly hours		Breakeven hourly fees
£1000.00	÷	400	=	£2.50

For example, if your weekly costs are £1,000 and you have 400 hours available per week, the hourly fee you need to charge to breakeven will, at 100% occupancy, be £2.50.

Work out your breakeven fee per hour by completing the table below.

Total weekly costs		Total weekly hours		Breakeven hourly fees
	÷		=	

You now know what you need to charge per hour, at full occupancy, to at least cover your costs. However it's not as clear-cut as this, as the actual price you'll charge is influenced by two other factors:

- It's rare for any business, and this includes childcare services, to operate at 100% occupancy all the time, so you should set a price that enables you to make a profit at a lower occupancy which you expect to achieve regularly
- You may generate additional revenue from other services

How you decide to set your price will determine your breakeven occupancy and the profit you make, for example:

If the hourly fee was set at £5

and using the previous example of costs of £1,000 per week

and your maximum weekly occupancy hours are 400 hours,

breakeven would be achieved at 50% occupancy (= £1000 ÷ £5 =200 hrs)

At this price a surplus will be earned when occupancy is in excess of 50%

At an occupancy of 75% 300 hours

the weekly surplus would be £500 per week (300 hours x £5 = £1,500 - costs £1,000 = £500)

Reducing your prices below a breakeven point will result in a loss

Using the example above,

if the hourly fee was set at £2

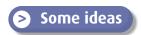
even at 100% occupancy, there's a loss of £200 per week (400 hours x £2 = £800 - £1000 costs = -£200)

As can be seen from the examples, the price you set should be based on a series of calculations. You need to think carefully before you settle on the rate and consider all matters relevant to your business. Try not to compete solely on price, differentiate your service and explain this when talking with parents.

### Sessional fees

The following is an example of how a session fee could work for an out of school club or playgroup.

As with the hourly example, if you charge more than your breakeven session fee you'll make a profit and if you charge less you'll make a loss.

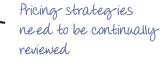


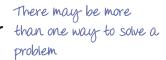
# Some ideas

A nursery has a pricing strategy that offers a sibling discount. Last year's register showed that only 4% of customers used that discount. This year though, 25% of parents have two or more children meaning that this strategy is likely to make a loss. Before continuing with this policy the business must calculate what this discount will do to their revenue and change the discount policy to ensure that no losses are made.

An out of school club regularly has between 15 and 17 children attending between 3.30pm and 6pm each day. Parents pay a fee of £4.50 per session. The costs per day for up to 16 children are just covered by the fees. However, when there are more than 16 children an extra staff member is employed to meet the staff/children ratio. This costs an extra £18 per day. This means that to cover costs the club needs at least 20 children. What are their options?

They can market their services to ensure that they have a minimum of 20 children attending every day, or they can review their pricing strategy to ensure that they cover the staff costs of looking after 20 children when only 15 attend.







Make sure you do 'real' calculations before implementing a new pricing policy An out of school club charges parents a single session fee for their children to attend from 3.30pm to 6pm each evening. 12 children attend and parents pay £5.50 per session resulting in £66 income per day. Their total costs per day are £56 therefore they make a surplus of £10 per day.

As a result of requests from parents to collect their children at 5pm the committee decided to offer that flexibility. They decided to charge less as a child spends less time in their care and doesn't attend for the full session. The committee agreed to set a rate of £2.50 for those parents.

8 parents took up that option - that resulted in a revenue of

This is less than the total costs and they were in danger of making a loss of £12 per day, (remember they still need to pay staff and rent, etc so their costs didn't reduce).



At a pre-school playgroup the committee are discussing their sustainability. They recognise that they need to increase their revenue to remain sustainable in the long term. One committee member, mentions that he has just joined a health club and that he has to pay a membership fee each year. The group discuss this method of charging for a service and highlight the fact that as a member he pays less per session. They're encouraged by the idea and see that they could apply this to their pre-school playgroup service so that parents are members for the duration of their child's stay with them.

This means that the group would benefit from receiving a membership fee and could also offer preferential rates for those parents who subscribe, as they invariably use the setting more frequently. The committee like this approach as it offers benefits for parents who need to use the setting regularly. Parents who use the service occasionally pay the normal non-member rate per session, in order to cover additional staff costs, etc.

As parents are members they can block book their child's places. This allows the committee to offer easier payment systems, post dated cheques and direct debits, but if the parent cancels then they're still required to pay that fee, as the strategy has been planned to employ staff to cover their child's place. This means that the strategy has a planned, guaranteed income and is more likely to be sustainable.



users



# A pricing policy

Once you've set your price, you should have a written policy. This enables you to give parents a document outlining your charges and can help overcome any discomfort when discussing this issue. The policy should include:

- · How much you charge per session
- What service is included in this price
- In which cases the price to an individual customer may increase i.e. if they're late picking up their child remember this has cost implications for you as you may have to pay overtime, etc
- What you'll charge if a child is ill and misses a session as a consequence
- What, if any, discounts can be made available
- Cover every eventuality in your policy and distribute it to staff and customers everyone will then be clear where they stand





## **Pricing Policy**

At Our Playgroup we believe in open communication with all our parents and staff. We set our prices and charges in consultation with our customers and this pricing policy is presented to ensure that you fully understand our charging structure.

- Rate per two hour session From Monday to Friday in term time is £6.50. This includes access to all our staffed facilities within Our Playgroup.
- Late pick-up In the case of the late pick-up of children we reserve the right to charge an extra fee of £2.50 for every half hour or part thereof. This is to cover staff overtime costs that we will incur.
- Illness We do not charge for short term absences through illness.
- **Absence** We understand that unforeseen circumstances can lead to absences. However, we need to charge a fee of half the normal rate for any unplanned absences, in order to cover costs.
- **Discounts** To help make our childcare affordable to the widest group of parents we offer generous discounts for block booking. If you book for a full term before the end of the previous term we offer a 10% discount on our
- Trips, visits and special events From time-to-time we offer parents and children the opportunity for special educational and leisure visits, such as the zoo or the local museum. We make a small charge to cover the cost of transport and entry fee. We will inform all parents well in advance of any planned trips and will continue to provide our usual high quality service for those parents who do not wish their children to take part.

Thank you for using Our Playgroup and if you require any further help or information ask a member of staff or call Julia on 0120 2203040.



# What can be done if the business is finding it hard to make a profit?

This is never an easy situation, although hopefully it's only temporary. Nevertheless, short-term measures to stop you losing money are vital. Faced with vacancies you're unable to fill, you should consider:

- 1. Increasing your income by increasing your charges, or changing your pricing strategy
- 2. Increasing your income by increasing the number of children you care for or the number of sessions you provide
- 3. Reducing your costs by decreasing your spending

Remember that you can increase prices and reduce costs, it's not an either/or decision!



If you need to take any cost control measures you need to ensure the continued provision of a good quality service.

## If you need to increase your prices

Approach any increase cautiously and only make changes after you've considered the market numbers and trends. Above all make sure you don't price yourself out of the market and create more vacancies because existing parents can't afford the new fees.

If you've no option but to increase prices, talk with parents and give them as much notice as you can - you may be surprised at how accommodating they are about the increase if you're providing an excellent childcare service.

Keeping parents informed can also have some other beneficial advantages. They're often the best form of advertising and if they know you're trying to fill vacancies, they'll usually go out of their way to mention it to friends, family and other contacts.

## Changing your pricing strategy

Increasing prices directly is one way of increasing your income but changing your pricing strategy, can be equally effective

- You may wish to charge for collections and drop off
- You may wish to introduce a membership scheme and offer differential prices for members and non members
- You may wish to operate an advanced booking system and charge fees if children don't attend
- You may wish to offer shorter or longer sessions and charge for them differently
- You may wish to offer special activity days and charge extra for them

The ideas are endless but what is certain is that without looking closely at the way you charge and where all aspects of your revenue comes from, you'll not be able to maximise your revenue potential.



## Reducing your costs

If things become really difficult, a last resort is to reduce your costs:

- Act quickly but avoid panic measures
- Think carefully about what can be realistically controlled with minimum effect on the quality of service you provide
- Look first at non-essential and low priority items and activities

Reducing costs may help your business to survive but realistically this strategy is only a 'quick fix' solution.

To build real business strength, concentrate on marketing, pricing and delivering a high quality childcare service.

So now you've explored the ways you can approach 'Pricing your childcare service'. What are the next steps? The techniques found in 'Planning for business success' will help you to implement your ideas. The 'Planning for success' section at the end of this guide gives an example of how you can use this approach.



# Planning for success in 'Pricing your childcare service'

Goal: To improve parental choices and maximise fee income

Objective: Design a new pricing strategy to increase revenue by 20%

by June 2004

**Action 1:** Calculate total costs

**Action 2:** Obtain feedback on the customer's needs

**Action 3:** Review all pricing ideas (membership, block pricing, etc)

**Action 4:** Decide on the best pricing strategy to suit the childcare service

**Action 5:** Do real calculations on what will be the affect on income of implementing

new pricing strategies

**Action 6:** Review calculations and make final adjustments

**Action 7:** Finalise the pricing strategy

**Action 8:** Discuss with customers and implement



# Stepping stone



#### For more information:

- Visit the Business Success for Childcare website at: www.surestart.gov.uk/support4business and use the 'Ask-the-Expert' facility
- · Call the free phone helpline on: 0800 294 2904
- Talk to your Business Support Officer who is based at the Local Authority's Early Years and Development Childcare Partnership
- Visit the Surestart website at: www.surestart.gov.uk or call 0870 000 2288
- · Visit the Children's Information Service website at: www.childcarelink.gov.uk or call 0800 0960 296

Yearly costs	Total
Registration/membership fees	
Public liability insurance	
Employee liability insurance	
Premises	
Council tax	
Utilities	
Office equipment	
Marketing	
Wages	
Additional staff costs	
Toys and equipment	
Other	
Total yearly costs	
Number of weeks	
Sub-total	

Weekly costs	Total
Food and drink	
Disposables	
Other	
Weekly sub-total	,

Sub-total		Weekly sub-total		Total weekly costs
	+		=	



# Business success for Childcare



This programme is provided by:

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- childcare
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