



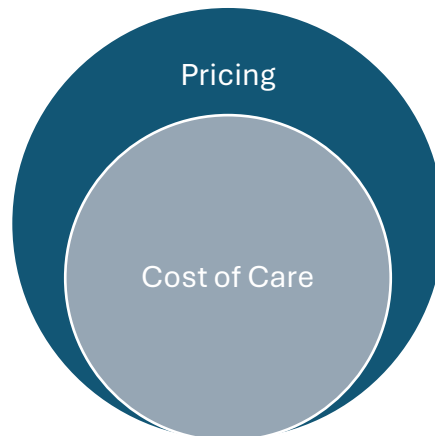
COST OF CARE GUIDE

Learn how to determine cost of care and how it impacts pricing for your child care business

Organizing your expenses is key to maintaining the financial health of your child care business. An important part of this process is understanding your actual cost of care, which includes all the expenses necessary to run your business, such as salaries, rent, utilities, supplies, and insurance. This understanding helps you determine your cost of care, how it affects your pricing, and ways to increase profitably.

WHAT IS THE COST OF CARE?

Cost of care is simply the amount it costs for you to run your business, including operating costs such as staffing costs and salaries, supplies, rent or mortgage, and utilities. Knowing your actual cost of care is important because it lets you know the minimum amount you need to be making before you'll be operating at a loss. Without knowing the full scope of your costs, it is also difficult to make your business more profitable. Your cost of care establishes the financial baseline for your business and allows you to understand the threshold for making a profit. For example, if your cost of care is \$20,000, you will not profit until you exceed that amount, since that accounts for the total costs you must cover.



There are four major areas that commonly affect the cost of care for child care businesses. These include staffing costs, facility costs, materials and supplies, and administrative costs:

STAFFING COSTS:

- 1. Wages and Benefits:** This includes salaries for teachers, assistants, and administrative staff. Factors such as experience, qualifications, and geographic location can influence wage rates. Additionally, benefits such as health insurance, retirement plans, and paid time off contribute to the overall staffing costs. Furthermore, your staffing costs will be driven by child-to-staff ratios. You'll want to consider the current staff ratios you have rather than regulatory limits since many child care businesses may have lower ratios than are required. Staffing costs are critical to your operation and are likely to be your highest cost.

FACILITY COSTS:

- 1. Wages and Benefits:** This includes salaries for teachers, assistants, and administrative staff. Factors such as experience, qualifications, and geographic location can influence wage rates. Additionally, benefits such as health insurance, retirement plans, and paid time off contribute to the overall staffing costs. Furthermore, your staffing costs will be driven by child-to-staff ratios. You'll want to consider the current staff ratios you have rather than regulatory limits since many child care businesses may have lower ratios than are required. Staffing costs are critical to your operation and are likely to be your highest cost.
- 2. Rent or Mortgage:** The cost of leasing or owning the facility where your business resides is a significant expense. This includes monthly rent payments or mortgage payments, which can vary based on location and facility size. This is a fixed cost that must be considered as part of the cost of care for your business.
- 3. Utilities:** Expenses for electricity, water, heating, and cooling are essential for maintaining a comfortable and safe environment for children.
- 4. Maintenance:** Regular upkeep of the facility and janitorial services are necessary to ensure compliance with health and safety standards and to provide a pleasant environment for children and staff.

MATERIALS AND SUPPLIES:

- 1. Educational Materials and Consumable Goods:** If you pay for an annual subscription for learning materials or curriculum, this should be considered in

your expenses. Cleaning supplies and food are consumable goods that are essential for the operation of your business and the care you provide. Cleaning supplies and food are more obviously expendable and greatly contribute to your overall costs.

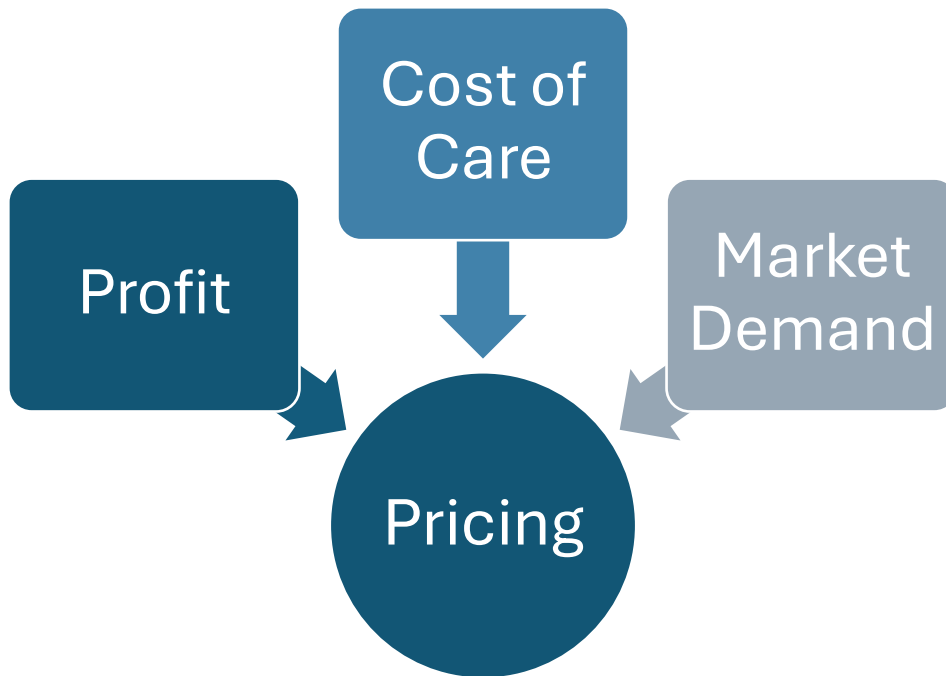
ADMINISTRATIVE COSTS:

- 1. Insurance:** Liability insurance and property insurance are necessary to protect the child care business from potential risks and liabilities. These should be considered monthly, and your policies reviewed annually to make sure they continue to align with the needs of your business.
- 2. Licensing:** Be aware of your annual licensing renewal process and any fees that are associated with it. Consider what other administrative costs are necessary annually or monthly to maintain your licensing and permits as required by state or local authorities.
- 3. Technology:** Investing in technology, such as computers, software systems for record-keeping and billing, and communication tools, helps streamline administrative tasks but incurs upfront and ongoing expenses. Costs associated with technology purchases should not be considered in your cost of care, but recurring expenses to support the use of technology in your program must be considered, such as internet access costs, software subscriptions, anti-virus software and digital storage platforms that may have a monthly cost associated with them.

When reviewing your expenses in these categories, start by asking yourself; what are the purchases you need to make each month to operate with your current capacity and quality? Those costs, that are required for you to deliver your services, will add up to your total cost of care.

PRICING

Pricing, in contrast, is the amount charged to customers for your services. It is what families will pay to enroll their children in your program. The goal of pricing is to cover all costs of care and have a profit on top of it for compensation, investment in the future, and other costs not directly related to operating your business. Pricing is driven by your costs, but also by the perception of your customers, market demand, and competition.



When developing a price you consider internal factors (such as cost of care) but also external ones, primarily the pricing of other programs in your area.

WHAT IF MY COST OF CARE EXCEEDS WHAT I CAN CHARGE IN MY AREA?

Sometimes, when you evaluate your market demand, you may discover that your cost of care is higher than what you can reasonably charge families in your area. This situation arises when the expenses necessary to maintain the desired quality of service—such as staff salaries, facility costs, and supplies—exceed the pricing that the local market can bear. This discrepancy can pose a significant challenge, as it impacts your ability to operate sustainably without compromising on the quality of child care provided.

Knowing your cost of care will help you 1) understand the minimum amount you need in revenue to cover your base costs and 2) help you identify areas where you might be able to trim your costs.

For example, Maria calculates the following items to determine her total cost of care:

- Rent: \$18,000 per year
- Utilities: \$4,800 per year
- Pay for 1 employee: \$16,000 per year
- Internet subscription: \$1,200 per year
- Liability insurance: \$2,400 per year
- Marketing and Advertising: \$2,000

- Supplies: \$2,200 per year

The total for her costs is \$46,600 per year. Maria knows to check the median rate for per child pricing in her area to help her determine her pricing. However, she finds that she is unlikely to bring in more than \$44,000 per year. This would tell Maria that she could not sustain the cost of caring for children in the way she is currently. This may require her to revisit the cost of care or rethink her business model entirely. Maria looks at her cash flow forecast and budget to determine where she can trim her costs:

- Rent: \$18,000 per year
- Utilities: \$4,800 per year
- Pay for 1 employee: \$16,000 per year
- Internet subscription: \$900 per year (Saved \$300 by switching to a cheaper internet service provider)
- Liability insurance: \$2,000 per year (Saved \$400 by shopping around)
- Marketing and Advertising: \$500 (Saved \$1,500 by switching primarily to social media based and word of mouth marketing)
- Supplies: \$1,500 per year (Saved \$700 by eliminating non-essential products and by buying items in bulk)

Her total costs are now \$43,700. Though she will not have much in the way of profit, she will at least not be losing money operating her business. She also has plans to increase and diversify her revenue by joining the Child and Adult Food Program (CACFP), applying to be a subsidy provider, and exploring tax strategies to maximize her compensation.

CONCLUSION

Now that you understand how to calculate your cost of care, what it consists of, and how to manage it, you can use that information to price more effectively, adjust revenue and expenses, and increase your overall profitability.

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