



Developing a Business Plan for Your Child Care Center

A business plan is a written document that describes your child care center's goals, why you think those goals are attainable, and how you plan to achieve them. Preparing a business plan forces you to think about all the things you need to plan and implement in order to start your business, expand your business, or achieve your program and organizational goals.

The business plan also serves as your guide to operating your child care center. You should continually review your plan and compare your actual results to those outlined in the plan. You should also update your business plan regularly, so that it remains an accurate guide for your business.

There is no one "standard formula" for writing a business plan. Your plan will vary depending on the nature of your child care business, your audience, and your purpose for writing a business plan. However, there are a number of sections that are commonly included. Some sections are relatively easy to complete - others will require some research. It may look overwhelming, but if you take one section at a time, it's not as hard as it looks. Depending on your business, some sections will only require that you write a couple of sentences for each bulleted point. Other sections may require more explanation.

BUSINESS PLAN OUTLINE

1. Cover Sheet

The cover sheet includes the name of the legal name of the entity along with any business name if different, address, telephone number, name of the owner(s) or executive director, and the date of the plan.

2. Table of Contents

3. Executive Summary

The Executive Summary is written last and can include the following key items:

- *Purpose of the business plan*
Think about your audience. Are you using your plan to present to a lender, a potential investor, or a foundation? Is your plan just to set goals for your board of directors or management team?
- *Brief description of the business – mission statement, services offered, target market*
- *Summary of the business plan goals*
- *Keys to success (how you will know when/if the plan is successful)*
- *Brief summary of financial request (if applicable)*

4. Description of the Business

- *What is your program's mission statement?*

The mission statement should answer the questions: Why does my business exist and what difference is my business going to make to which people?

- *What is the history of your business/organization (if the center already exists)?*

- *What services do you offer (or plan to offer?)*

In addition to describing your services, you should also talk about the ages of children you serve and any special services you provide, such as transportation, language classes, music instruction, and so on. You should also mention your hours of operation and your payment policies.

- *What are the key benefits your program is selling to parents?*

Many child care providers can easily list the features of their programs – the hours the program is open, the ages of children served, the fact that they are licensed. However, this does not give much information to parents trying to figure out the best program for their children. Parents want to know how a program will meet their needs and those of their children. You can use our tool “[Promoting the Benefits of Your Child Care Program](#)” to help you figure out the true benefits of your program.

- *How do you measure quality in your child care center?*

Is your center accredited by the National Association for the Education of Young Children (NAEYC) or another accrediting body? Is there a quality rating system in your state and do you participate in it? Do you use a research-based curriculum? Do you assess your children's progress on a regular basis? If yes, what assessment tool do you use? Have you had an Environmental Rating Scale completed by a third party? Do you or will you only employ certified or credentialed teachers and staff?

5. Objectives of the Business Plan (Keys to Success)

- *How will you know your plan is successful?*

Your business plan objectives should be measurable, timely, and reasonable. Some examples of statements of objectives might include:

- “We will reach and maintain enrollment at 90% of licensed capacity in six months.”
- “By the end of our fiscal year, we will have improved a full level in our state's quality rating scale.”
- “In two years, we will have expanded our center to add two new classrooms.”
- “By the end of our fiscal year, we will achieve profitability and have cash reserves of 45 days.”

If your business is a start-up, you should include a time line for opening the business.

6. Description of the Project

If you are writing your business plan to start a child care center or you are planning an expansion of your existing center, you should describe the proposed project in detail. If you are not planning for start-up or for an expansion, use this section to talk about your center's current location.

- *Where is the center located (or where will it be located?)*

Describe the neighborhood or community in which the center is located.

- *Is the location owned or leased?*

- *Is a new site being acquired or is an existing site being expanded?*

If owned, describe the terms of any mortgage or contract for deed. If leased, describe the terms of the lease. **As a general rule, a start-up center should not consider purchasing a building, but should consider a lease arrangement.**

- *Is the site appropriate for child care? Is the location good for business?*
- *Has the site been checked for hazardous materials? Has a Phase I or Phase II Environmental Assessment been completed for the site?*
- *Are there any issues regarding the site (for example, zoning, parking, visibility, signage, layout, design, condition of the building, municipal sewer and water access charges, etc.)?*
- *How will the rooms be designed and arranged?*
- *What equipment and furnishings will you need?*
- *How will you manage the development process? Will you hire an architect, project manager, engineer, or other consultants to help you manage the construction process?*

If your organization is a nonprofit, discuss the level of involvement of your board of directors.

7. Description of the Market

- *What are the demographics of families in your target geographic area?*

Your state will probably have U.S. Census Bureau demographic information on its official website. Depending upon its size, your county or city may also have U.S. Census Bureau information broken out by neighborhood on its website. You may also call your local library's reference desk for help or check the following websites:

<http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml>,
www.neighborhoodlink.com/, or www.muninetguide.com/.

- *What is the existing supply of child care like in your target geographic area?*

Check with your local or state child care resources and referral agency or your state child care licensors for information on how many providers (both licensed and informal) are operating in your area, whether or not they are full, whether or not they have waiting lists, what prices they charge, and what types of services they provide. Do your own market research by directly contacting other child care providers in your area.

- *What are the trends in the child care industry, especially in your local region or area?*

Your local or state child care resource and referral agency will probably be the best source of this information. You can also check on the internet to see if your state has completed an Economic Impact of Child Care.

- *Is there an actual demand for your center's services?*

Just because studies show there is a need for child care doesn't mean that parents will want or be able to afford your program. Use your planning process as an opportunity to talk to prospective parents directly. Have them complete a simple survey about their child care needs and wants. Ask them for letters of intent stating that they will use your center when it opens. Doing these things will also give you a head start on promoting your center before it's even open.

- *Who are your main competitors?*

Why is it important to know your competitors? Seeing what others are doing (both good and bad) can help you really figure out **your vision** for your child care business. Once you know your vision, it will be much easier to tell parents what **you** have to offer that's special, that's unique from all other providers. You can use our tool "[Competitive Analysis: Who Are My Toughest Competitors?](#)" to help you with this.

- *What is unique about your child care center? What's your competitive advantage? Why do (or why will) customers come to your center and not to the competitors?*

You want to create a unique market niche to make your child care center stand apart from the competition. Customers will view the center as offering more perceived added value and they prefer to purchase child care where they get more value. Often that perceived added value may only exist in the mind of the customer. It can be a real difference in quality child care or it can be just the feeling the customer has that the way the center presents itself and provides service is different or better.

- *What is your target market(s)? Who are your target customers – age, income, lifestyle, education level, and so on?*

As you write this section, keep in mind the following questions: How many target customers are there? Where do they live? Where do they work? How do they get to work? What are they currently using for child care? Can you offer them anything they are not getting now? How can you persuade them to bring their children to your center? Exactly what services do you offer?

Marketing Strategies

- *What promotional and advertising strategies (for example, newspaper ads, flyers, listing your center with your local resource and referral agency, offering gift certificates for referrals, etc.) will you use to reach your target market(s)?*
- *Is your **image** consistent – from your business name and logo to the appearance of your center?*
- *Can you tell prospective parents the top two to three **benefits** of your program?*
- *Are your **prices** consistent with your benefits?*

You don't have to be the cheapest program in your area to be competitive, but you do have to show how your program adds value or benefits your parents.

- *What are your key messages?*

For help in writing the marketing section of your business plan, see our tool [“Developing a Marketing Plan for Your Child Care Center.”](#)

8. Operations

The operations section is particularly important if you are a start-up child care center. You want to be able to show your lender or other funders that you know how to operate the business from day one. You may want to include your staffing plan to show how you will meet your state's ratio requirements, as well as your goals for moving beyond the requirements.

- *What sources will you have for supplies and materials?*
 - *What new or additional equipment and furnishings are included in this business plan?*
- Don't forget such needs as computers, software, playground equipment, commercial kitchen equipment, cots, strollers, high chairs, tables, chairs, etc.

9. Financial Management

This section is one that your lender will look at very carefully. You should make sure that all budgets and projections are achievable and realistic and include detailed explanations backed up by verifiable bids, catalog pages, and research for each line item.

- *Start-up Budget - Sources and Uses of Funds (if center is new)*
- *Project Budget - Sources and Uses of Funds (if center is expanding)*
- *Capital Budget (include sources of funds as well as uses), if applicable*
- *Annual Operating Projections (Budget) for at least two years*
- *Monthly Cash Flow Projections for at least 24 months (if debt is a source of funds)*

As you work on the financial section of your business plan, you may want to consider doing a SWOT Analysis. SWOT stands for strengths, weaknesses, opportunities, and threats. Strengths and weaknesses are internally focused on the center, while opportunities and threats are focused on the conditions in the community and economy. A SWOT analysis challenges you to see beyond the walls of your center to determine opportunities and capitalize on your strengths. What you learn will have an impact on your child care center operating and capital budgets.

Your business plan should clearly describe the financing that you will need for your start-up or your project. If your center is a start-up, you should have enough cash yourself to pay for **at a very minimum** 20% to 25% of the total start-up costs. Even if your center is not a start-up, your lender may require you to have a significant cash down payment in a large project.

In addition, your lender will also want collateral to secure a loan to your center. Keep in mind that banks "factor" collateral. A lender assumes that if he or she were forced to liquidate the assets of the business to recover the outstanding balance of the loan, the bank would not be able to receive the best price on the business assets. Real estate is generally factored at 70% to 75% of market value less any outstanding mortgage balance. A lender generally assumes that no more than 50% of the value of equipment and furnishings could be recovered. As a rule of thumb, it is best to have at least \$2 of unsecured collateral for every \$1 in proposed loan. That's why lenders usually require personal guaranties and often a pledge of personal

collateral such as a second mortgage on a home or a lien on a personal vehicle. If collateral is weak, it can be improved by a pledge of collateral by a third party or a co-signer or guarantor to the loan.

- *What are your short-term and long term financial goals for the center?*

Financial goals could include level of profitability, amount of cash reserves, amount and age of accounts receivable, amount and age of accounts payable, and so on.

10. Leadership – Management Plan

- *What is your business structure?*

If you are a for profit business, you may be structured as a sole proprietorship, partnership, limited liability company, or corporation. Each of these structures will affect how you and the business are taxed and what level of liability you bear. A nonprofit center may be a program of a larger umbrella organization. If you are an independent nonprofit, you would file articles of incorporation with your state as a nonprofit and obtain your 501c(3) exemption from the Internal Revenue Service. You would also prepare by-laws which would guide your operations. For more information, see our tool [“For Profit vs Nonprofit.”](#) **In any event, consult with your attorney and accountant for advice on your business structure.**

- *Who makes up your management team?*

Describe their qualifications and their experience and training in child development and business management.

- *Who is the key teaching staff?*

Describe the staff’s credentials and experience. Describe current and future staff needs. Discuss your policies and objectives related to staff training. Discuss your policy along with licensing requirements for background checks for staff.

- *Are the center’s financial and human resources systems in place?*

This section is especially important for start-up or new centers and should clearly answer the following questions:

- *Is the owner, manager, or director familiar with employer issues including withholding, workers compensation insurance, unemployment insurance, and with general employment policies and procedures?*
- *Is there a system in place and a person responsible for bookkeeping, accounting, and tax reporting?*
- *Does the owner, manager, or director have a plan in place to receive and review an accurate balance sheet and income and expense statement on a regular basis (preferably, monthly)?*
- *Is there a system in place and a person responsible for required child care recordkeeping?*

- *What is your exit strategy if the business is not successful?*

Include a list of any business advisors such as advisory groups, attorneys, accountants, and others.

Include an organizational chart, if possible.

11. Leadership – Governance (if the center is a nonprofit corporation)

Include a list of the current board of directors including their affiliation, their length of service on the board, and the expiration of their term.

- *Do the current board members represent areas of expertise needed by the center? Do they represent the community and others as required by the by-laws?*

If the make-up of the current board is not what the center wants it to be, consider including a board recruitment and development plan within the business plan.

12. Evaluation

- *How will you know your plan is successful? (Your Keys to Success)*
- *How will you know your child care program is successful?*
- *Are their financial or operational benchmarks or program outcomes you want to measure?*

Your business plan objectives should be measurable, timely, and reasonable.

13. Supporting Documents

- *Child Care Plan*
- *Start-up Sources and Uses of Funds (if center is new)*
- *Project Sources and Uses of Funds (if center is expanding or undertaking a major project)*
- *Capital Budget (include sources of funds as well as uses), if applicable*
- *Annual Operating Projections (Budget) for at least two years*
- *Monthly Cash Flow Projections for at least 24 months (if debt is a source of funds)*
- *Financial Statements/Federal Tax Returns/Audits (last two years plus current year)*

- *Staff/child ratio chart for each classroom or age group*
- *Resumes of Key peoples (owner, manager, board chair, executive director)*
- *Staff credentials*
- *Consultant contracts*
- *Letters of support*
- *Articles of incorporation*
- *Child care license*
- *Letters of intent*
- *Letters of support*
- *Copy of lease*
- *Any other relevant information*

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