MONTANA CHILD CARE CONNECT SUMMIT 2026

Inspiring Leadership Nurturing Community

ZEROTOFIVE MONTANA | CCT A project of Child Care Resources | montana early childhood project | SPARK MONTANA | family connections

Babies Pay the Bills

Rethinking Infant-Toddler Care Through a Business Lens

July 29, 2026

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Jason Nitschke

Senior Child Care Business Advisor
JasonN@ZerotoFive.org

Professional Career

- 2022-current - Senior Child Care Business Advisor - Zero to Five Montana
- 2019-2022 – Vice President – Great Falls Development Authority
- 2014-2022 – Regional Director – Great Falls Small Business Development Center
- 2000-2002 & 2011-2012 - Small Business Owner
- 1997-2013 - Print & Broadcast Journalist

Certifications

- 2024 - P.A.S. & B.A.S. Reliable - McCormick Center for Early Childhood Leadership
- 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) – Assoc. of Accr. Small Bus. Cons.
- 2015 -- Certified Business Advisor – GrowthWheel International

Recognitions

- 2024 - Partnership of the Year with CMCA - Snowy Mountain Dev. Corp.
- 2022 – Boots to Business National Instructor of the Year – U.S. Small Business Admin.
- 2018 – Montana SBDC State Star
- 2017 - Veteran Service Award - U.S. Small Business Administration
- 2007, 2009, 2010 - Broadcast awards - MT Broadcasters Assoc., Society of Prof. Journalists

Education

- 2002 - Master of Arts, Communication - Hawaii Pacific University
- 1997 - Bachelor of Arts, Journalism/Political Science - University of Montana

CONTEXT & BACKGROUND

- **Total industry client count: 4583**
- **Total advising hours: 9805**
- **Total industries advised: 20+**
- **Total ECE client count: 234**
- **Common Thread:**
  - *Nearly all people running businesses, regardless of industry, have little to no academic background in business ownership, management, or entrepreneurship.*

BUT FIRST! “ACCESS TO I/T IS NOT A NEW PROBLEM”

Child Care Deserts

An Analysis of Child Care Supply and Demand Gaps in Montana

Author

Katelyn Flavin, Economist, MTDLI

Contributors

Amy Watson, Chief Economist, MTDLI

Tracy Moseman, Division Administrator, MT DPHHS

Xanna Burg, Director of KIDS COUNT, Montana Budget & Policy Center

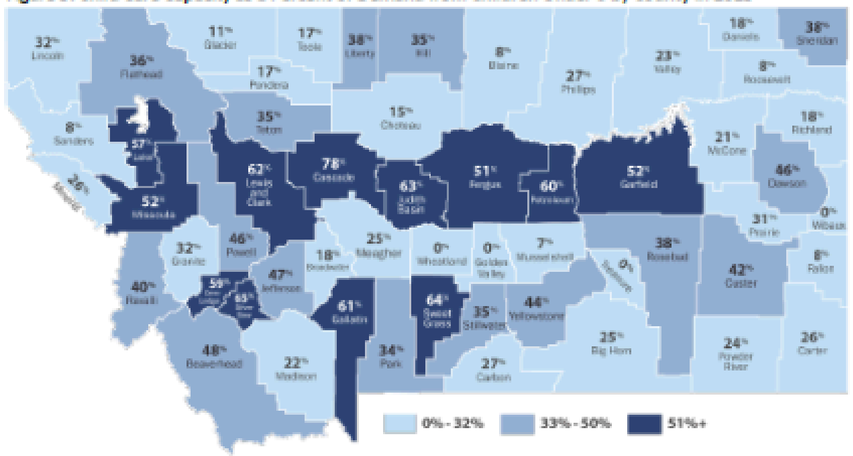
May 2026

Montana Department of LABOR & INDUSTRY

KIDS COUNT MONTANA

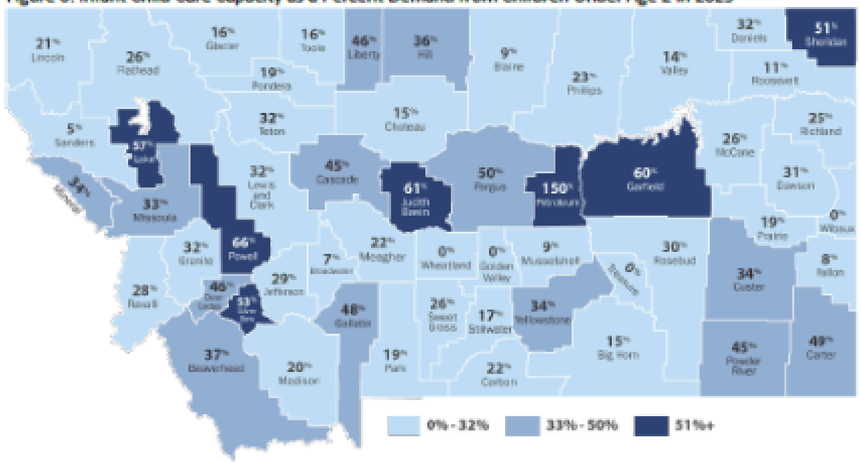
DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES

Figure 5. Child Care Capacity as a Percent of Demand from Children Under 6 by County in 2025



Source: MTDLI analysis of child care capacity data provided by MTDPHHS through 12/2025. MTDLI child care demand calculation based on U.S. Census Bureau 2024 Population Estimates Program (PEP) data provided by Montana KIDS Count and 2020-2024 American Community Survey (ACS) data produced by the U.S. Census Bureau.

Figure 6. Infant Child Care Capacity as a Percent Demand from Children Under Age 2 in 2025



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BUT FIRST! WHAT'S THE PROBLEM?

#1 - Statewide Demand Met by Capacity

Under Age 6: 46%

Under Age 2: 33%

13-point gap

#2 - Affordability of Care for Families

Tuition is typically higher

BBS reimbursements 5%-13% more

#3a - Lower Student:Teacher Ratios

4:1 | 6:1 | 8:1 | 10:1

13% more ≠ wage increases

Normalize to 20 kids: Inf at 20:5 ≠ Pre-K at 20:2

#4 - Attracting/Retaining I/T Teachers

Wage & Stress Problems

Child Care Gap Analysis

The child care gap refers to the difference between the supply of licensed child care in Montana and the estimated demand for care. **To measure the gap between the supply and demand for child care, the licensed child care capacity in the state is expressed as a percentage of estimated demand.** The denominator reflects the potential demand for child care and the numerator is the licensed child care capacity in Montana. Therefore, any gap measurement under 100% is considered undersupplied. More detailed information on the child care gap calculation is available in appendix A1.

Using this calculation of the child care gap, **Montana's total child care capacity currently meets 46% of estimated demand and infant capacity meets only 33% of estimated demand.**[iii] Figure 4 shows the estimated demand for child care from children under age six and two compared to the average annual capacity at licensed child care facilities in 2025.

Figure 4. Statewide Child Care Supply and Demand Analysis in 2025

Age Category	Children Needing Care	Average Child Care Capacity	Percent of Demand Met by Capacity
Under Six	45,889	21,120	46%
Under Two	14,910	4,960	33%

Source: MTDLI analysis of child care licensing data provided by MT DPHHS. U.S. Census Bureau 2024 Population Estimates Program (PEP) data provided by Montana KIDS Count and 2020-2024 American Community Survey (ACS) data. Average child care capacity for children under two reflects infant capacity. Data are rounded to the nearest ten.

#3b - Lower Student : Teacher Ratios

- Not saying change ratios!
- Saying marginal tuition % increases do not necessarily cover true costs
- Example: Group of 20 children
- Infants require 5 teachers at $17.57/hour (state median) = $87.85 labor cost/hr
- Pre-K requires 2 teachers at $17.57/hour = $35.14 labor cost/hr
- Difference of 150% (2.5x) to care for the same head count

WHAT IS THE INFANT-TODDLER OPPORTUNITY BLUEPRINT?

It's not one thing. It's two. And more.

The Opportunity Blueprint for Infant-Toddler Services
Provider-Facing Edition

The Opportunity Blueprint for Infant-Toddler Services
Advisor & Systems Edition

NOT DIFFERENT CONTENT

SAME MODEL FOR DIFFERENT AUDIENCES

WHO IS THE INFANT-TODDLER BLUEPRINT FOR?
It's Two Things for Two Target Audiences

The Opportunity Blueprint for Infant-Toddler Services
Provider-Facing Edition

- Not as long - roughly half the length
- Fewer numbers
- More concepts & mindset-based
- Not included
  - Glossary of Terms
  - Appendices
  - Financial Scenarios
  - Screenshots of Scenarios
  - Step Through of Fiscal Models
  - Calculating local supply-demand
  - Conducting competitive analysis

The Opportunity Blueprint for Infant-Toddler Services
Advisor & System Edition

- 90+ Pages
- Dollars and Data Heavy
- Step-Through:
  - Conducting competitive analysis
  - Supply-Demand calculations
  - Making data-driven decisions
- Includes:
  - Glossary of Terms
  - Appendices
  - Four Financial Scenarios
  - Screenshots in Narrative of Scenarios
  - Step Through of Fiscal Models

EVERYONE SEES THE ISSUE DIFFERENTLY
EVERYONE HAS DIFFERENT IDEAS HOW TO FIX IT

AGENDA

1. Reset the Thinking
2. Gain Market Clarity
3. Gain Cost Clarity
4. Be Intentional about Revenue
5. Create a Decision Framework

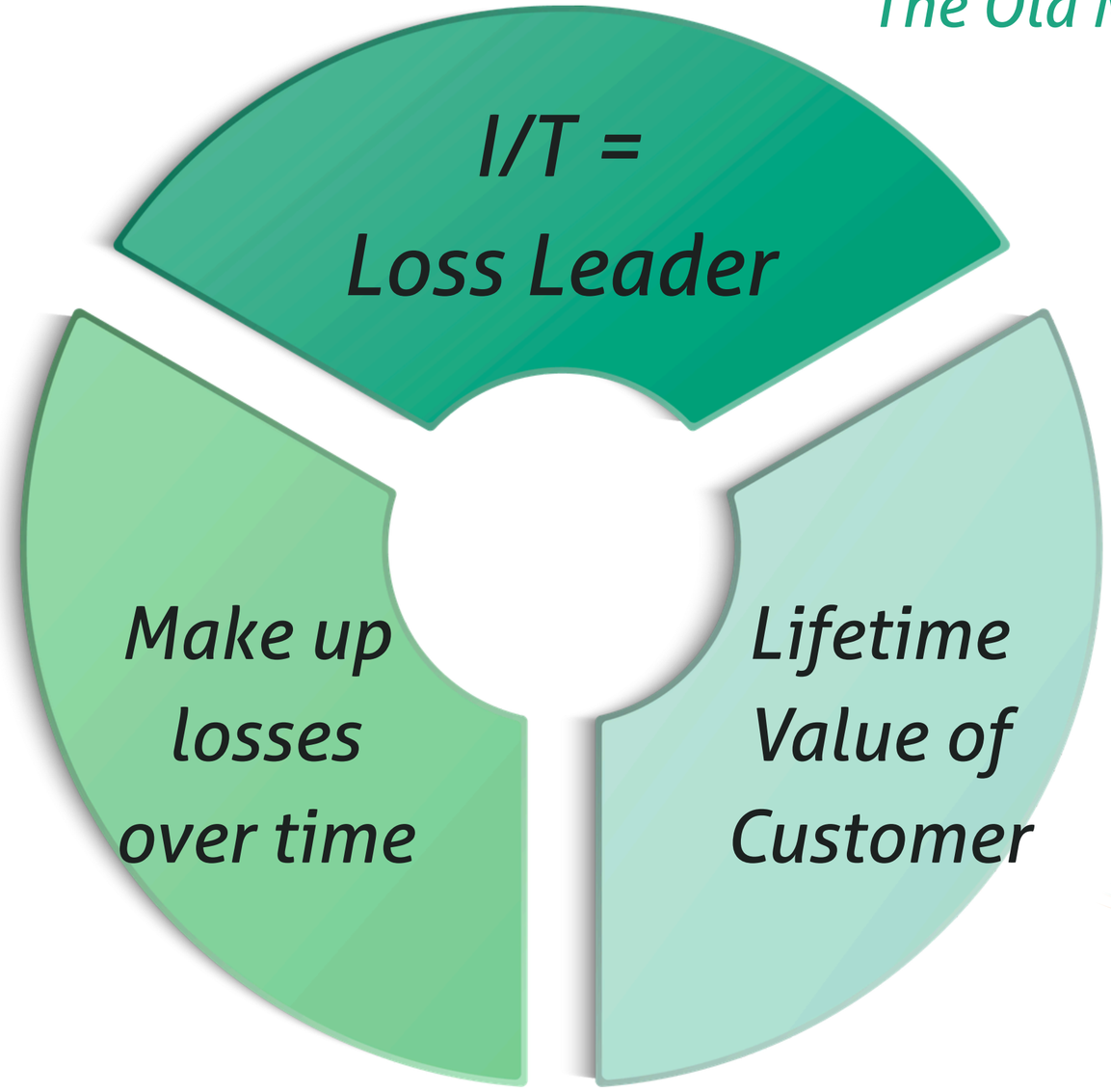
I. RESET THE THINKING:
Why do models fail?

Root Causes:

- *Historic Business Practices*
- *Mindset & Approach*
- *Lack of Comprehensiveness in:*
  - *Budgeting*
  - *Pricing Accuracy*
  - *Local Competitive Analysis*
  - *Hiring I/T Teachers*
  - *Payer Diversification*
- *Lack of Unit Economics*

I. RESET THE THINKING:

The Old Model



The Hidden Reality

- *Being Full Does Not Mean Being Sustainable*
- *Full enrollment can still lose money*
- *When programs lose money, they are not viable*
- *When programs are not viable, they are not sustainable*
- *When they are not sustainable, they close*

I. RESET THE THINKING:

The Loss Leader Trap

The Old Model

The "Foundation" of Joe & Laurie

I/T Care Has Been Subsidized for Years…

But not in the way you might think:

Older ages cover losses

Owners fill the gap

Why That Model Is Breaking

The System Conditions Have Changed

Workforce Instability

Current LFPR = 61.8%

at lowest point since June 1976 (61.9%)

50-year low in MT

Mobile Nature of the Population:

Families leave programs for a variety of reasons:

Relocation, Job Changes, Quality Expectations, Etc.

Increased Competition:

Stay-at Home Parents

Unlicensed/lower cost out of home options

Public pre-K expansion

I. RESET THE THINKING:

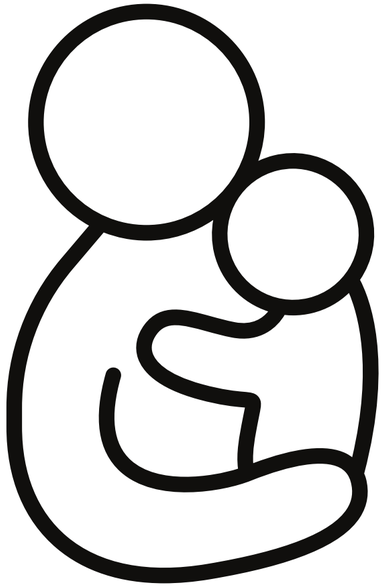
The Shift That Changes Things

Every Child, Every Day Must
Cover Their Cost of Operations (known & potential),
Profit, & Owner's Compensation

CRITICAL COMPONENT:

This Does NOT Mean Families Pay More

Cost must be covered
But not by one source



I. RESET THE THINKING:

Infant-toddler care is not failing because it is expensive

It is failing because it is priced and structured incorrectly

It is based in an old way of thinking about I/Ts & the ECE business model

My call to action for providers is to get creative, get motivated, solve root causes

II. GAIN MARKET CLARITY

If it is true, that the old way isn't working,
the next question is <u>not</u>:

'CAN WE DO I/T CARE?' OR 'HOW DO WE DO I/T?'

The question is:
'SHOULD WE DO IT HERE, IN THIS BUSINESS,
IN THIS COMMUNITY?'

IN THE OPPORTUNITY BLUEPRINT FOR I/T SERVICES

Key Point #2 is about The Old Way vs. A New Way

- **Loss Leaders**
  - Not all services are profitable
- **Lifetime Value**
  - Profit is made up over total enrollment period

Projected Financial Performance by Age Group
These estimates assume typical Montana-based ratios and tuition patterns.

Age Group	Typical Annual Revenue	Typical Annual Cost	Annual Profit/Loss
Infant (0–12 mo)	$11,400	$13,500	–$2,100
Toddler (12–36 mo)	$10,800	$10,200	+$600
Preschool (3–5 years)	$9,600	$7,800	+$1,800

Five-Year Lifetime Value
If the child stays from birth through age five:

What T

Old Model – "I/T as a Loss Leader"

The intent with this section is not too de-personalize children in care. The goal is to look at
problem (and opportunity) of I/T care through the lens of business. To do this, let's conside
term Unit Economics.

Unit Economics in an ECE setting answers two core questions:

1. How much does it cost to serve one child?
2. How much revenue does one child generate?

By comparing revenue per child to cost per child, programs can determine:

- Whether an age group is profitable,
- How tuition should be set, and
- Whether the business model is sustainable.

9

The Risk of Relying on LTV Today
The traditional LTV-based model for I/T care collapses if:

- The family leaves early
- The program loses a teacher and must reduce enrollment
- Costs, such as inflation-driven wage demands, increase faster than tuition
- Preschool-aged enrollment fluctuates due to market competition

Let's revisit the earlier scenario using these realities:

If the child leaves at age 4 (as many do today):

- You absorb the full –$2,100 loss from the infant year,
- You earn only one or two years of toddler and preschool profit,
- You never reach the breakeven point over the entire enrollment period of the child.

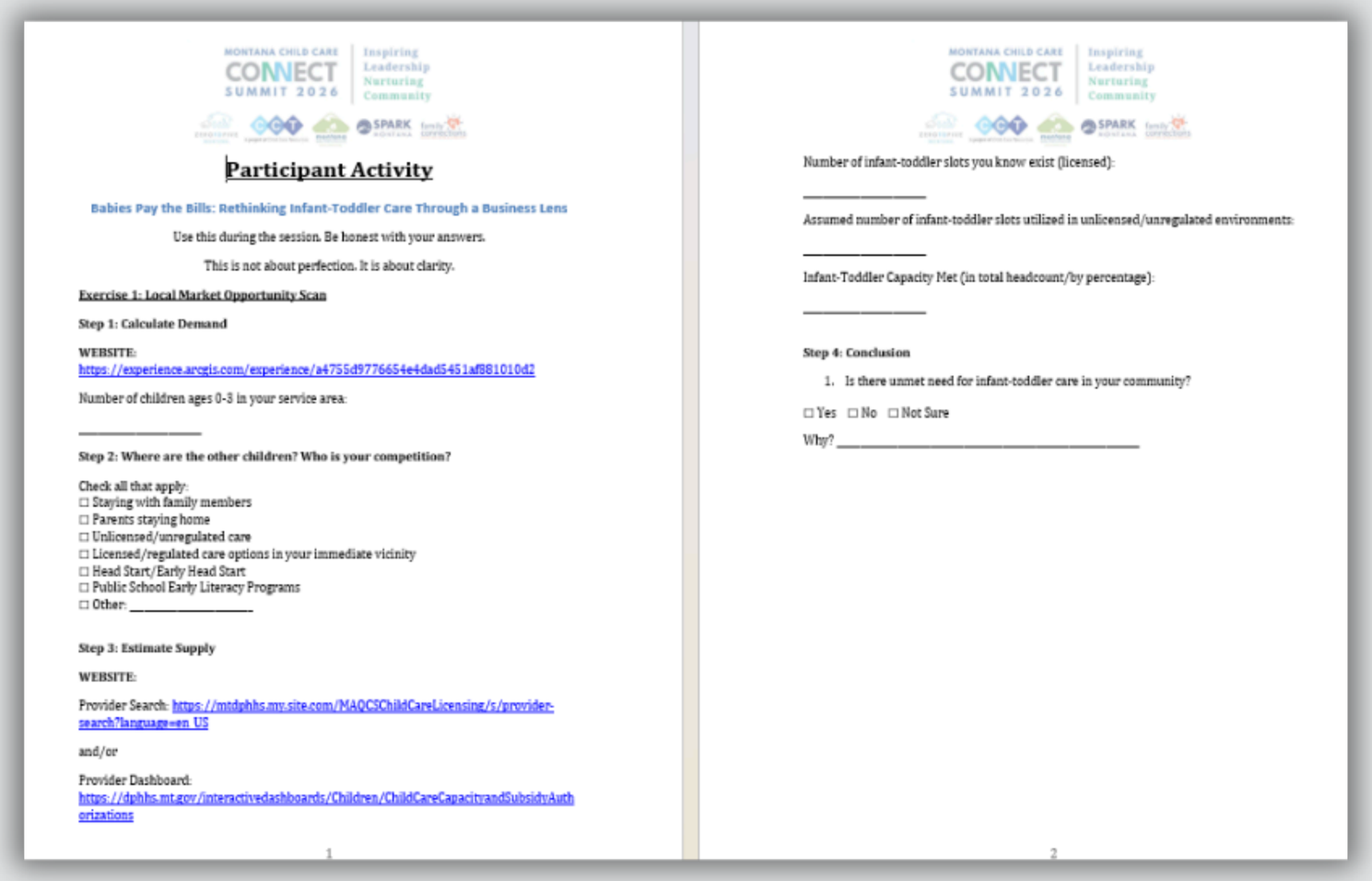
Outcome:
The program ends up in the negative/loss even though it was fully enrolled and operating "normally."

This is exactly why the model must modernize: I/T services must be profitable at the unit level from the outset of a child's enrollment. I/Ts simply cannot be subsidized by older ages.

Key Takeaway
LTV is a *helpful metric*, but it should not be used as the financial justification for offering I/T care.

II. GAIN MARKET CLARITY
UNDERSTAND LOCALIZED SUPPLY-DEMAND

Exercise #1



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Participant Activity

Babies Pay the Bills: Rethinking Infant-Toddler Care Through a Business Lens

Use this during the session. Be honest with your answers.

This is not about perfection. It is about clarity.

Exercise 1: Local Market Opportunity Scan

Step 1: Calculate Demand

WEBSITE:
https://experience.arcgis.com/experience/a4755d9776654e4dad5451af881010d2

Number of children ages 0-3 in your service area:

_____

Step 2: Where are the other children? Who is your competition?

Check all that apply:
☐ Staying with family members
☐ Parents staying home
☐ Unlicensed/unregulated care
☐ Licensed/regulated care options in your immediate vicinity
☐ Head Start/Early Head Start
☐ Public School Early Literacy Programs
☐ Other: _____

Step 3: Estimate Supply

WEBSITE:

Provider Search: https://mtdphhs.my.site.com/MAQCSChildCareLicensing/s/provider-search?language=en_US

and/or

Provider Dashboard:
https://dphhs.mt.gov/interactivedashboards/Children/ChildCareCapacityandSubsidyAuthorizations

1

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Number of infant-toddler slots you know exist (licensed):

_____

Assumed number of infant-toddler slots utilized in unlicensed/unregulated environments:

_____

Infant-Toddler Capacity Met (in total headcount/by percentage):

_____

Step 4: Conclusion

1. Is there unmet need for infant-toddler care in your community?

☐ Yes ☐ No ☐ Not Sure

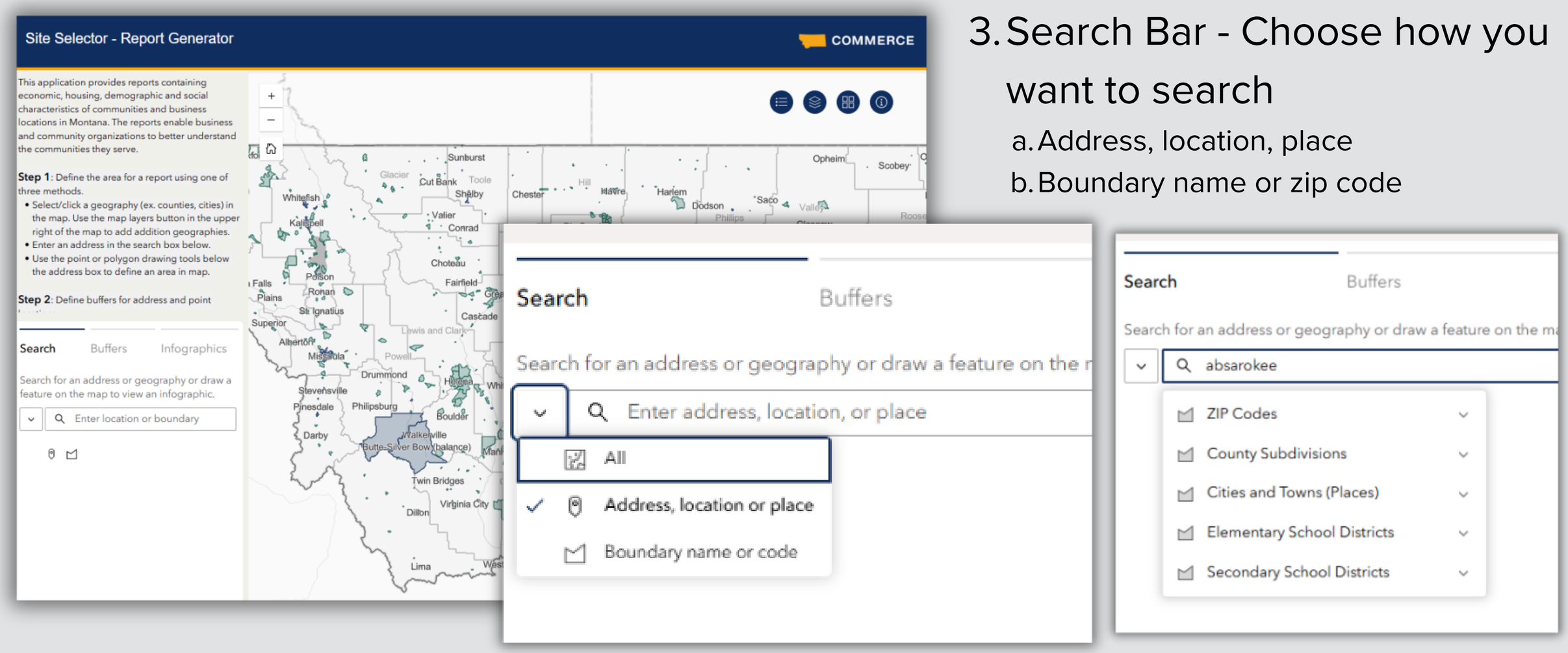
Why? _____

2

1. Handout - Participant Activity
2. Go to Montana Site Selector:
   a. https://experience.arcgis.com/experience/a4755d9776654e4dad5451af881010d2

II. GAIN MARKET CLARITY
Step 1 - Calculate Demand for Care

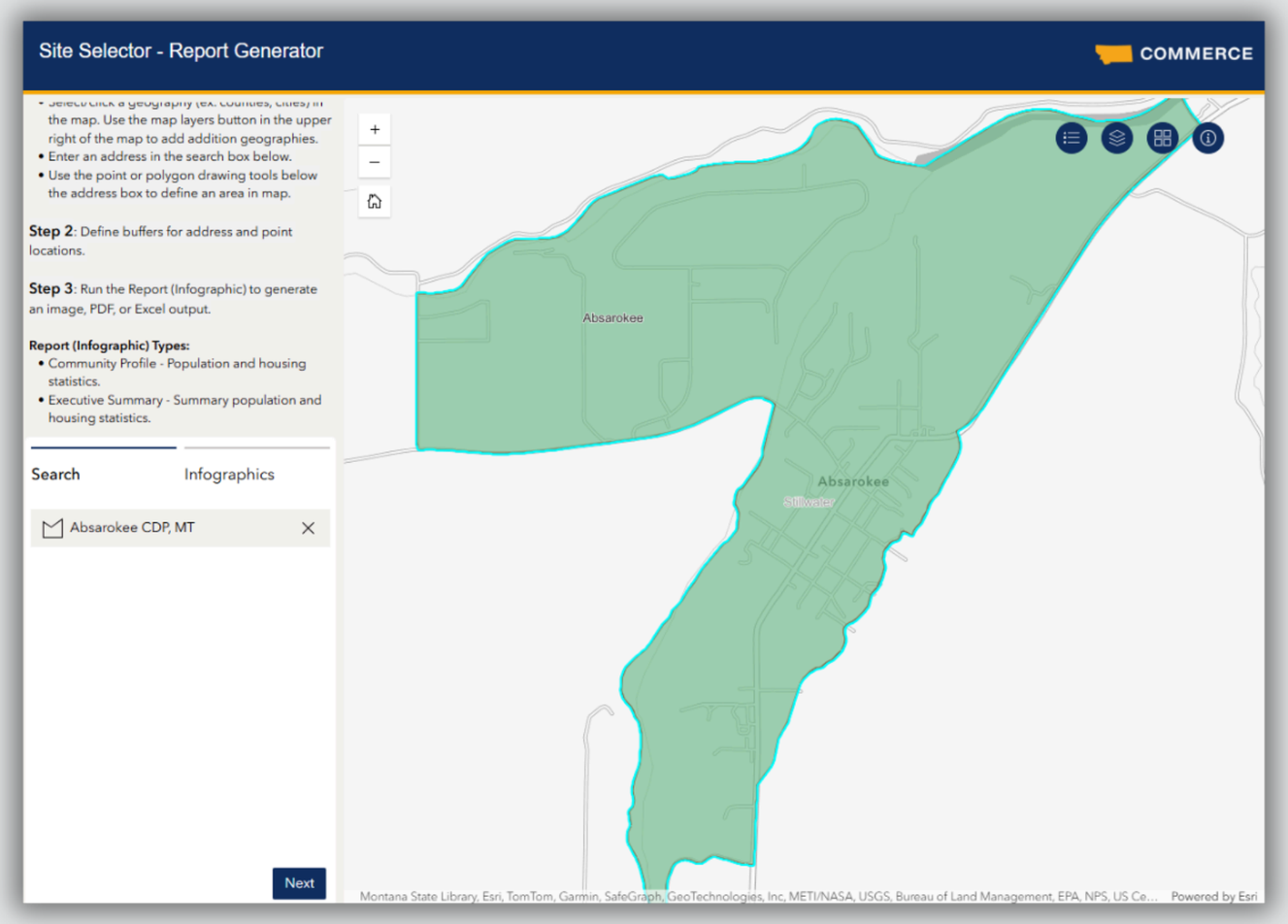
Exercise #1



3. Search Bar - Choose how you want to search
   a. Address, location, place
   b. Boundary name or zip code

II. GAIN MARKET CLARITY
Step 1 - Calculate Demand for Care

Exercise #1



4. Click Infographic - Type
5. Select Report Type - "Demographic and Income Profile"
6. Run Infographic

II. GAIN MARKET CLARITY
Step 1 - Calculate Demand for Care

Demographic and Income Profile

Absarokee CDP, MT
Absarokee CDP
Geography

esri
THE SCIENCE OF WHERE

Summary	Census 2020	2025	2030
Total Population	1,000	996	993
Total Households	467	478	485
Family Households	259	256	257
Average Household Size	2.14	2.08	2.05
Owner Occupied Housing Units	340	359	368
Renter Occupied Housing Units	127	119	117
Median Age	48.9	50.5	50.9

Trends 2025 - 2030	Area	State	National
Population	-0.1%	1.0%	0.4%
Households	0.3%	1.1%	0.6%
Family Population	0.1%	0.9%	0.5%
Owner Occupied Housing Units	0.5%	1.3%	0.0%
Median Household Income	4.5%	2.2%	2.5%

Population by Age	Census 2020		2025		2030	
	Number	Percent	Number	Percent	Number	Percent
0-4	44	4.4%	42	4.2%	42	4.2%
5-9	46	4.6%	50	5.0%	45	4.5%
10-14	53	5.3%	48	4.8%	53	5.3%
15-19	63	6.3%	47	4.7%	44	4.4%
20-24	37	3.7%	47	4.7%	34	3.4%
25-29	42	4.2%	39	3.9%	51	5.1%
30-34	46	4.6%	48	4.8%	42	4.2%
35-39	50	5.0%	52	5.2%	53	5.3%
40-44	57	5.7%	55	5.5%	58	5.8%
45-49	68	6.8%	63	6.3%	62	6.2%
50-54	57	5.7%	76	7.6%	69	7.0%
55-59	79	7.9%	60	6.0%	80	8.1%
60-64	101	10.1%	82	8.2%	64	6.5%
65-69	94	9.4%	98	9.8%	82	8.3%
70-74	70	7.0%	81	8.1%	86	8.7%
75-79	50	5.0%	53	5.3%	64	6.5%
80-84	27	2.7%	35	3.5%	37	3.7%
Age 85+	16	1.6%	20	2.0%	27	2.7%

Source: Esri forecasts for 2025 and 2030. U.S. Census Bureau 2020 decennial Census data

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7. Report will populate for selected area:
    a. Address
    b. City
    c. County
    d. Drive Radius (time or miles)

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50-54	57	5.7%	76	7.6%	69	7.0%
55-59	79	7.9%	60	6.0%	80	8.1%
60-64	101	10.1%	82	8.2%	64	6.5%
65-69	94	9.4%	98	9.8%	82	8.3%
70-74	70	7.0%	81	8.1%	86	8.7%
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Age 85+	16	1.6%	20	2.0%	27	2.7%

Source: Esri forecasts for 2025 and 2030. U.S. Census Bureau 2020 decennial Census data

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8. Count total Population by Age
    a. 2025 = 92 ages 0-9
    b. Averages 9 children/age group
9. Nine children/age group x 3 =
    a. **<u>27 Total Demand for Care</u>**

Population by Age	Census 2020		2025		2030	
	Number	Percent	Number	Percent	Number	Percent
0-4	44	4.4%	42	4.2%	42	4.2%
5-9	46	4.6%	50	5.0%	45	4.5%
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Age 85+	16	1.6%	20	2.0%	27	2.7%

II. GAIN MARKET CLARITY
Step 2 - Where are these children?

Step 2: Where are these children? Who is your competition?

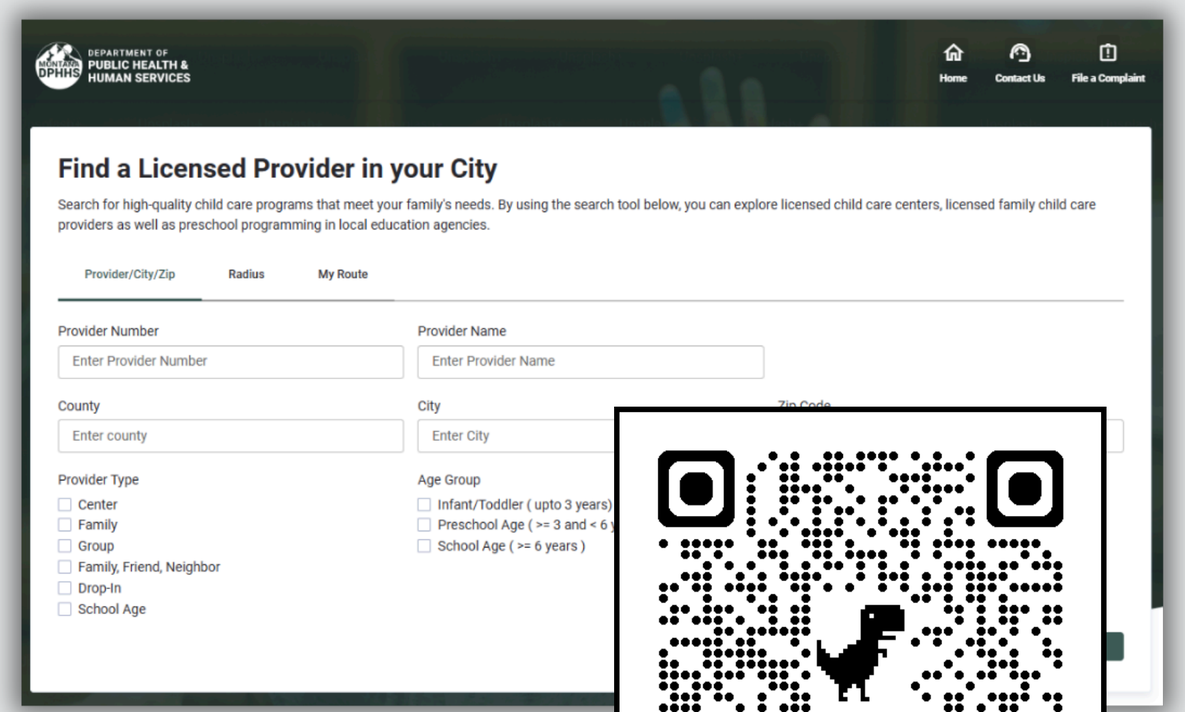
Check all that apply:

- ☐ Staying with family members
- ☐ Parents staying home
- ☐ Unlicensed/unregulated care
- ☐ Licensed/regulated care options in your immediate vicinity
- ☐ Head Start/Early Head Start
- ☐ Public School Early Literacy Programs
- ☐ Other: _____

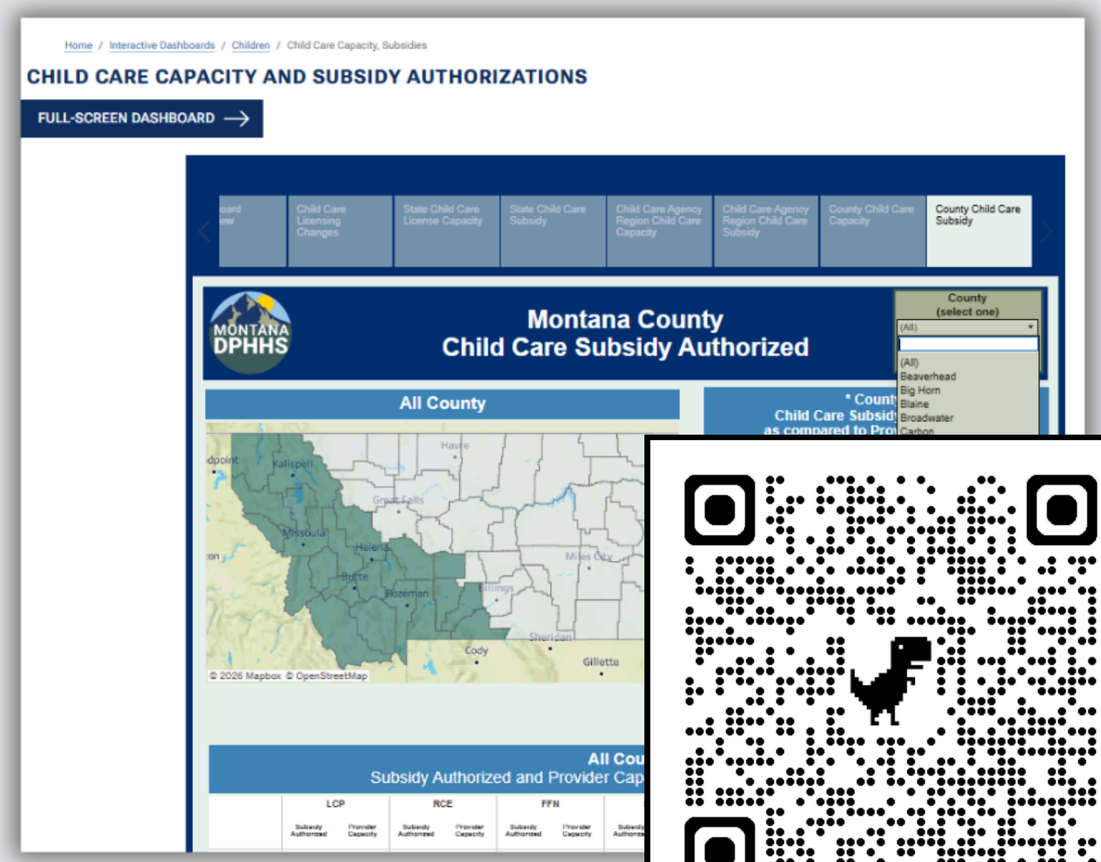
Is this a WAG or a SWAG?

II. GAIN MARKET CLARITY
Step 3 - Estimate Supply of Care

Provider Search

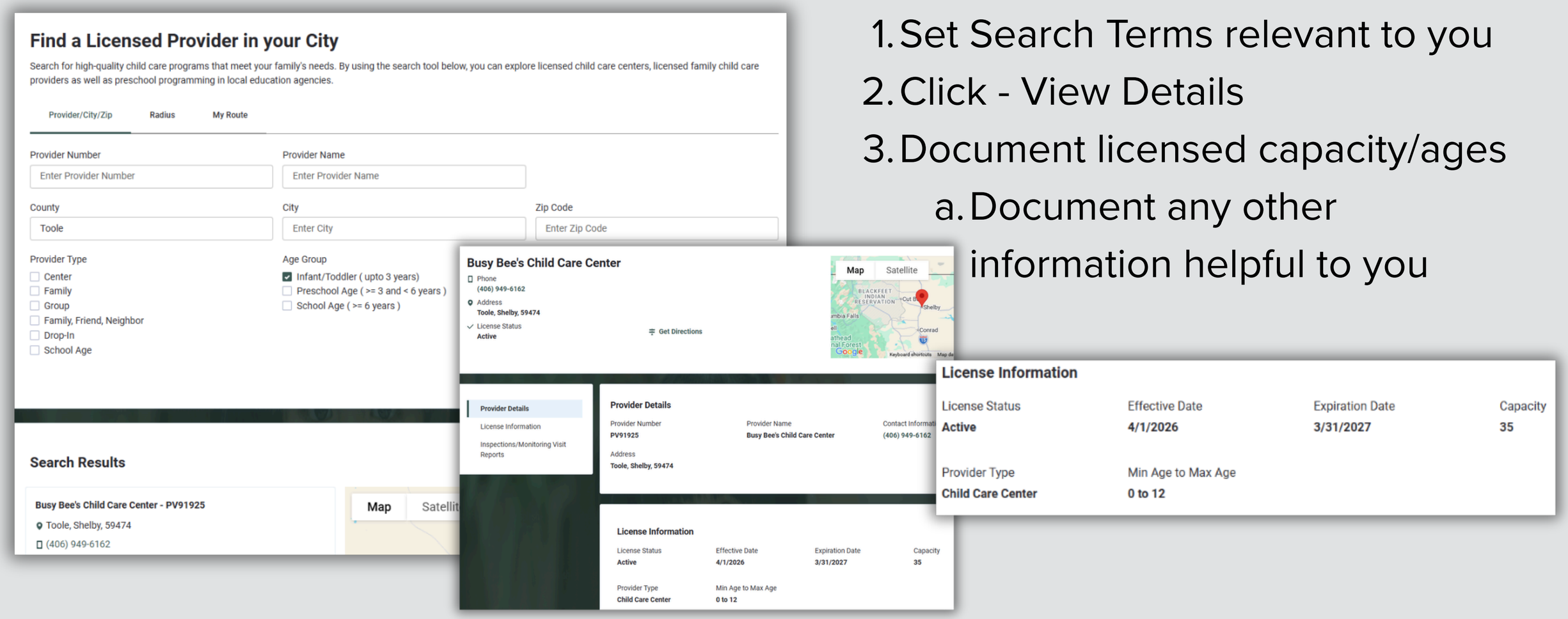


Provider Dashboard



II. GAIN MARKET CLARITY
Step 3 - Estimate Supply of Care

Provider Search Website



1. Set Search Terms relevant to you
2. Click - View Details
3. Document licensed capacity/ages
   a. Document any other information helpful to you

II. GAIN MARKET CLARITY
Step 3 - Estimate Supply of Care

Who else is direct or indirect competition? How many kids are in those locations?

Step 2: Where are these children? Who is your competition?

Check all that apply:

- ☐ Staying with family members
- ☐ Parents staying home
- ☐ Unlicensed/unregulated care
- ☐ Licensed/regulated care options in your immediate vicinity
- ☐ Head Start/Early Head Start
- ☐ Public School Early Literacy Programs
- ☐ Other: _____

II. GAIN MARKET CLARITY
Step 3 - Estimate Supply of Care

Number of infant-toddler slots you know exist (licensed):

_____

Assumed number of infant-toddler slots utilized in unlicensed/unregulated environments:

_____

Infant-Toddler Capacity Met (in total headcount/by percentage):

_____

Is this a WAG or a SWAG?

II. GAIN MARKET CLARITY
Step 4 - Come to a Data-Informed Conclusion

Step 4: Conclusion

1. Is there unmet need for infant-toddler care in your community?

☐ Yes ☐ No ☐ Not Sure

Why? _____

2. Is there unmet need for high-quality, licensed infant-toddler care in your community?

☐ Yes ☐ No ☐ Not Sure

Why? _____

BUSINESS DECISIONS ARE LOCAL - NOT STATEWIDE

And pertinent to your immediate proximity

Three inputs to the next step:

1. *Number of children (0–3) - Demand*
2. *Known Options - Supply*
3. *Where the are rest of the children? - Supply*

Document:

1. *Estimated I/T children in the area*
2. *Number of slots you can identify*
3. *Where families are going instead*

DATA-DRIVEN DECISIONS

Does your community actually need more Infant/Toddler care?

- *Yes*
- *No*
- *Not sure*
- *More research is necessary*

Critical Leadership Point

- *Not every provider should start/expand/offer I/T*
- *Understand your why & support it with data*

III. GAIN COST CLARITY
Reframing

If you do not know your program's cost of care per child, your price is a guess.

Sometimes guesses are okay.

But in business, pricing is not an area to guess.

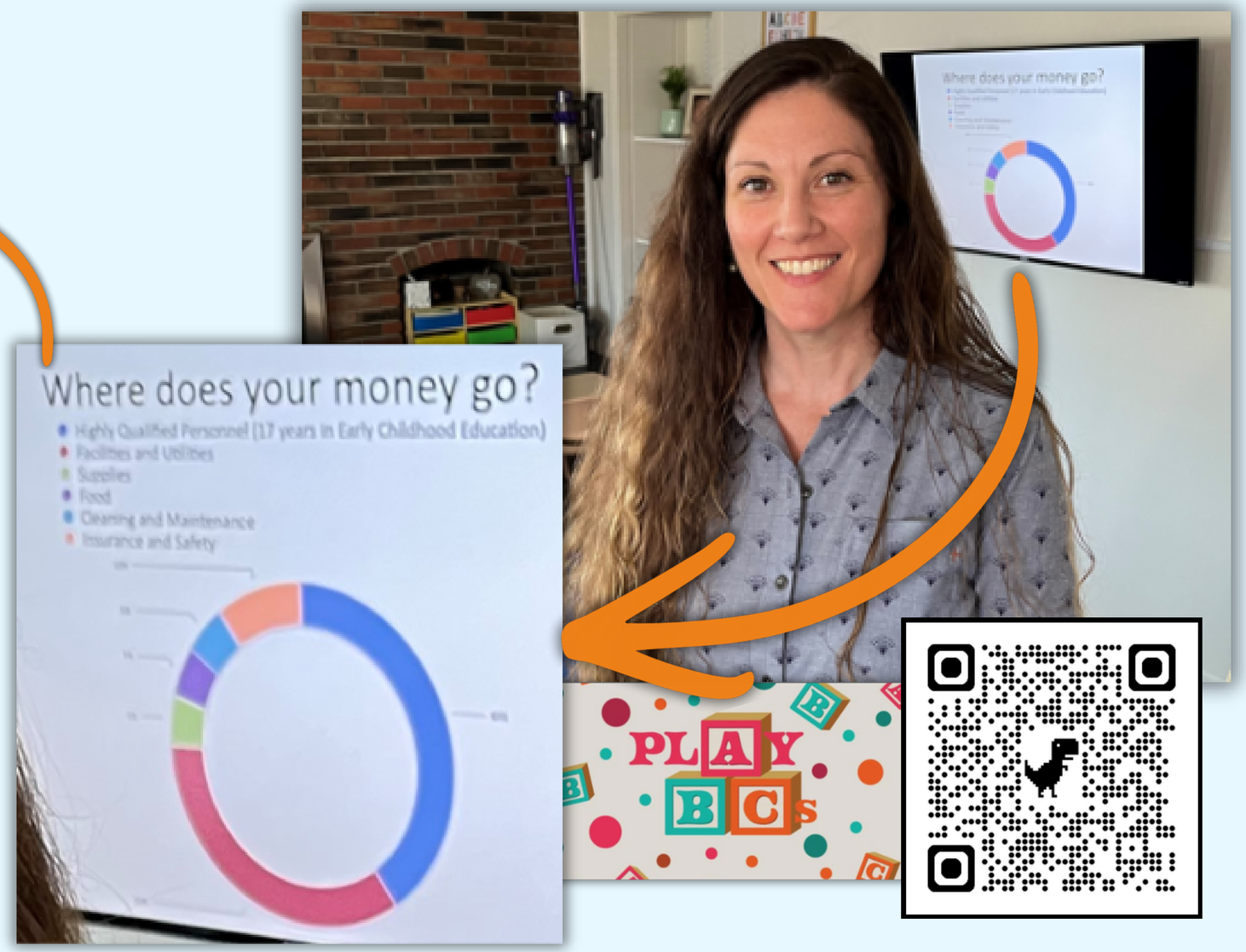
III. GAIN COST CLARITY

What It Actually Means

Communicating:
Each child has a real cost
<u>and</u>
What those costs are

Reconsidering:
Who Pays for Services

Families
Subsidy
Employers
Programs
Community



III. GAIN COST CLARITY

From Price Guilt to Cost Clarity

Old → "What can families afford?"

Old → "There is One Single Fix"

New → "What does it cost and how is it covered?"

- *Who has a vested interest?*
- *Who is benefitted?*

New → "There Is No Single Fix"

- *Control & Initiative are in the hands of owners & operators!*

III. GAIN COST CLARITY

The Four Levers

<u>Every Program Has These Four Tools</u>

Price

Volume

Fixed Costs

Variable Costs

If we understand them, we can use them

If we plan for them, we can adjust them

If we measure them, we can analyze them

If we analyze them, we can improve them

IF THEY ARE IMPROVED, CASH FLOW INTO AND OUT OF THE BUSINESS IMPROVES

III. GAIN COST CLARITY

The Four Levers: Price | Volume | Variable Costs | Fixed Costs

Price

Pricing Must Reflect Reality

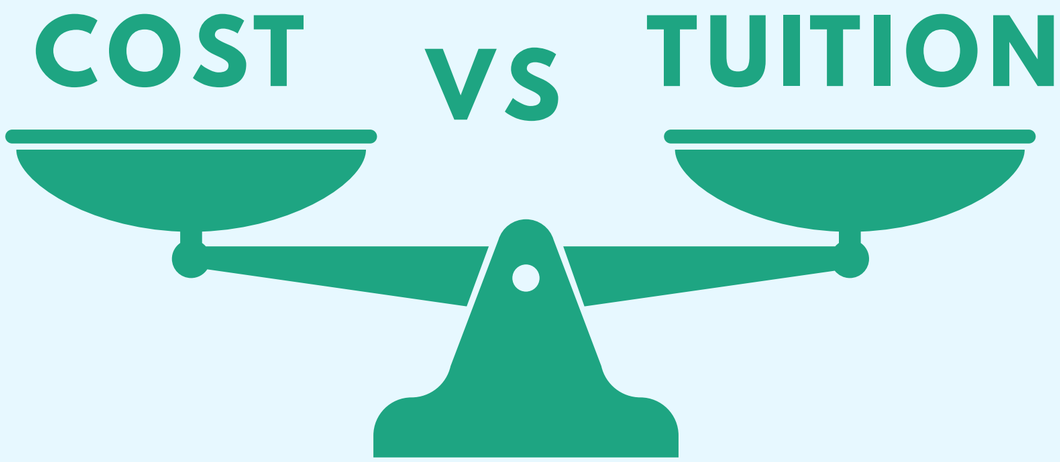
"If price is wrong, everything downstream is unstable"

Flawed Assumption: "Tuition must cover 100% of True Cost"

Correct Assumption: "Revenue must cover 100% of True Cost"

Flawed Assumption: "Families must cover 100% of True Cost"

Correct Assumption: "Earned Income and Those Benefitted must cover 100% of True Cost"



III. GAIN COST CLARITY

The Four Levers: Price | Volume | Variable Costs | Fixed Costs

Volume (aka: Quantity)

Predictable Enrollment Matters More

Than Max Enrollment

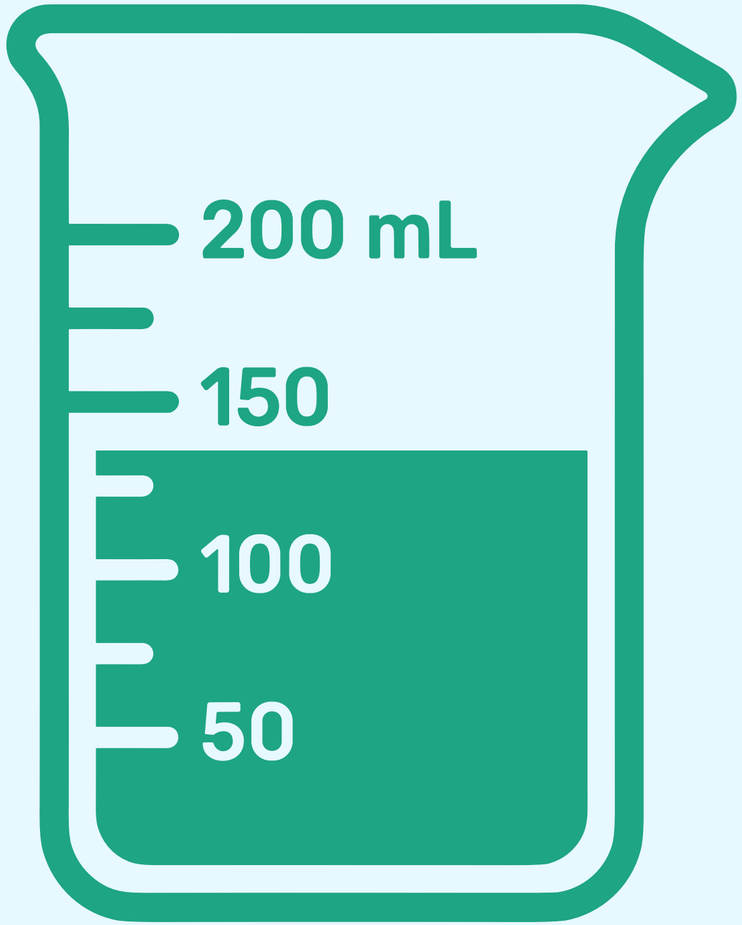
20 slots vs 15 consistent children (%

OF CAPACITY)

Volume can mean ADA vs. ADE;

Diversifying earned income sources;

Diversifying Payers

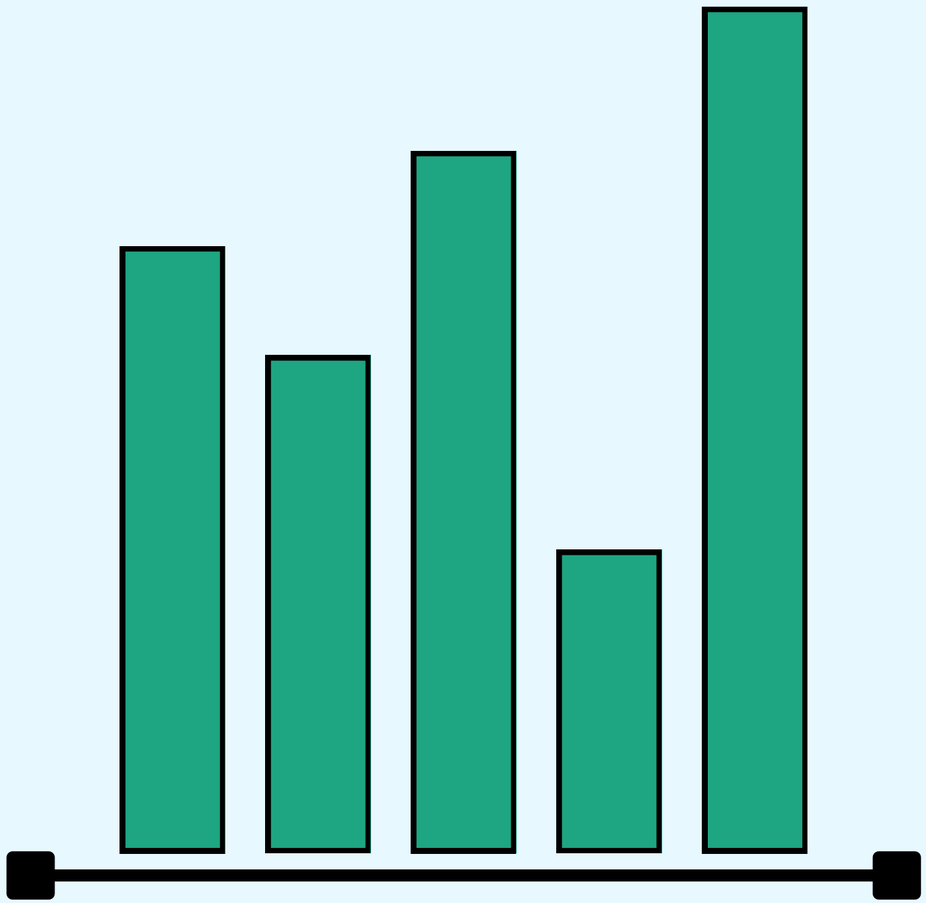


III. GAIN COST CLARITY

The Four Levers: Price | Volume | Variable Costs | Fixed Costs

Variable Costs:
Costs directly linked to children and increase/decrease based on the number of children enrolled/attending per day

Know them
Plan for them
Analyze them
Manage them (aka: buy better)

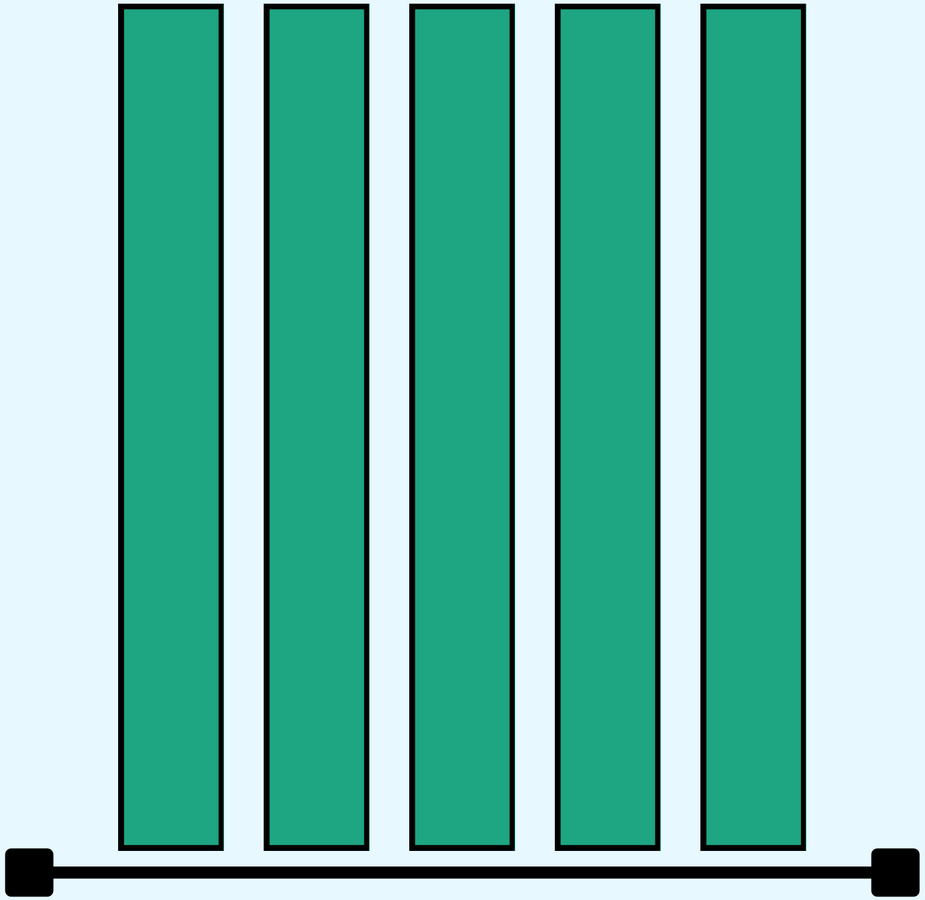


III. GAIN COST CLARITY

The Four Levers: Price | Volume | Variable Costs | Fixed Costs

Fixed Costs:
Costs not directly linked to or caused by an increased or decreased number of children enrolled/attending per day

Know them
Plan for them
Include potential (aka: be comprehensive)
Analyze them
Manage them (aka: buy better)



III. GAIN COST CLARITY
Step 2 - Rough Operating Costs

Known *Exercise #2* *Potential*

Exercise 2: True Cost Per Child (Draft Estimate)

Step 1a: List Your 100% Known Operating Expenses (per year)

Known Operating Expense	Annual Amount
Labor (including all licensed and non-licensed, support positions)	
Payroll taxes (depending on benefits, this number is usually 10-20% of wages)	
Owner or Officer's Compensation	
Insurance (include general and professional liability, worker's compensation, and unemployment)	
Employer Retirement Contributions	
Employer Sponsored Health Insurance	
Professional Development	
Food	
Classroom Supplies & Materials	
Cleaning Supplies	
Office Supplies	
Transportation	
Curriculum	
Facility - Rent or Mortgage	
Facility - Utilities and/or Common Area Maintenance	
Debt Service (principal & interest payments)	
Marketing & Promotional	
Taxes & Licenses	
Accounting & Legal	
Software & Technology	
Dues & Subscriptions	
Training & Education	
Car, Delivery, Travel	
Total *Known* Operating Costs	

Step 1b: List Your Potential Operating Expenses (per year)

Potential Operating Expenses	Annual Amount
Repairs & Maintenance	
Hiring & Recruiting	
Discounts	
Bad Debt & Uncollectable Tuition	
Cash Reserves* (net profit as a fixed cost)	
Miscellaneous** (loss, theft, waste, unknown)	
Total *Potential* Operating Costs	

- *The industry averages for net profit as a percentage of total revenue averages roughly 7.82% of revenue.
- **A good rule of thumb for unknown is 2% of gross revenue.

III. GAIN COST CLARITY
Total Operating Costs - Known & Potential

Exercise #2

Step 1c: Total Your Known and Potential Operating Expenses (per year)

Total Expenses	
Total *Known* Operating Costs	
Total *Potential* Operating Costs	
Total Operating Expenses	

III. GAIN COST CLARITY

Step 2 - Enrollment Reality

Step 2: Enrollment Reality

Licensed Capacity: _____

Realistic, Paid, Full-time Slot Average Daily Enrollment (ADE): _____

Paid Daily Enrollment as percentage of Licensed Capacity: _____

Predictable enrollment matters more than maximum enrollment because it assumes imperfection.

III. GAIN COST CLARITY

Step 3 - Cost per Child

Step 3: Cost Per Child

How many days per year do families pay for? _____

- For 12-month programs, the number of Mondays through Fridays is calculated by multiplying 52 weeks by five Mondays through Fridays per week (52 x 5 = 260 paid days per year). This number should also include days the program is closed, such as holidays, PTO, etc., but parents pay for.

Estimated cost per child (annual): _____

- Divide Total Operating Expenses by Realistic, Paid, Full-time Slot Average Daily Enrollment (ADE)
- This will be a rough estimate for the true cost of care per child per year.

Estimated cost per child (daily): _____

- Divide Estimated cost per child (annual) by the number of Days per Year Families pay for.
- This will be a rough estimate for the cost of care per child per day.

III. GAIN COST CLARITY

Step 4 - Reality Check

Step 4: Reality Check

Is your current tuition equal to or greater than your cost? ☐ Yes ☐ No

If no, calculate the gap? _____

DATA-DRIVEN DECISIONS

How does this exercise make you feel?

- *Happy*
- *Sad*
- *Confused*

Critical Leadership Point

- *If your numbers do not work on paper, they will not work in real life.*

IN THE OPPORTUNITY BLUEPRINT FOR I/T SERVICES

Key Point #3 is about Unit Profitability & Comprehensiveness

- **Budget Comprehensiveness**
- **Cost-Plus Pricing Methodology**

Break Even Analysis - Cost of Care Per Child			
Step #1 - Classify Costs			
Variable Costs in Dollars	$	35,773	This amount is equal to the total Dire
Fixed Costs in Dollars	$	357,251	This amount is equal to the total ope
Step #2 - Calculate Variable Costs as Percent of Sales			
Total Revenue	$	393,024	This amount is equal to the total gros
Variable Costs in Dollars	$	35,773	This amount is equal to the total Dire
Variable Cost Percentage		9%	This is the Direct Classroom Costs' r
Step #3 Calculate Contribution Margin			
Total Revenue as a Percentage		100%	This is total revenue represented as a
Variable Cost Percentage		9%	This is the Direct Classroom Costs' r
Contribution Margin Percentage		91%	This is the amount of revenue left ove
Step #4 Divide Fixed Costs by Contribution Margin			
Fixed Costs in Dollars	$	357,251	This amount is equal to the total ope
Contribution Margin Percentage		91%	This is the amount of revenue left ove
Break-Even Point in Dollars	$	393,024	This is the dollar amount at which th into the budget as a targeted expense
Step #5 - Break-Even by Unit - Cost of Care Per Child Per Day			
Break-Even Point in Dollars	$	393,024	This is the dollar amount at which th
Days Open Per Year		260.00	Enter the total number days per year
Average Daily Enrollment (ADE)		20.00	Enter the total number of children pa
Cost of Care Per Child Per Day on Average	**$**	**75.58**	**This is the amount, on average, a p expenses and classroom expense Revenue from other sources (fees, makes up the additional amount th**
	$	67.90	Actual average tuition charged per ch days/year) / 260 days/year / 20 childre

The details matter.

True Cost Determination for Pricing Accuracy

The Pricing Formula will be used to estimate gross revenue from the sale of the service of care.

Now, let's change how we look at accurately calculating the pricing variable in that formula.

To do this, we need to comprehensively estimate all operating expenses. This can be tricky because there are the operating expenses a program is guaranteed to incur. But there are also operating expenses a program may potentially incur. Guaranteed and potential expenses will vary by the specific offerings of individual programs.

And by the way, the owner of the business should not work for free. The IRS has a term for this…it's called a hobby.

For example, some programs offer meals and snacks. Others don't. Some programs have families bring diapers and wipes. Others don't. Some programs operate out of a home in which they live. Others rent a home or a commercial space. One may have a time-space calculation to account for rent or a mortgage plus utilities. The other will have rent or a mortgage, telephone and internet, water and sewer, electricity, and gas bills that need to be paid individually.

The point is none of the following examples will be 100% exactly representative of every program.

Guaranteed Expenses (In Most Cases)
Here is a list of the types of expenses most programs will almost certainly incur to operate a program.

Classes of Accounts are the primary headings. Charts of Accounts are the secondary headings adding additional detail to the primary expense types. In relation to the prior heading about the Four Ways to Increase Cash Flow, we've also included if these Classes and Charts are Variable Costs or Fixed Costs.

- Direct Classroom-Related Supplies (Variable Costs)
  - Food
  - Diapers and Wipes
  - Classroom Materials
  - Ongoing replacement of small toys
- Labor-related expenses (Fixed Costs)
  - Wages
  - Salaries
  - Employer-portion of payroll taxes
  - Benefits

IV. BE INTENTIONAL ABOUT REVENUE

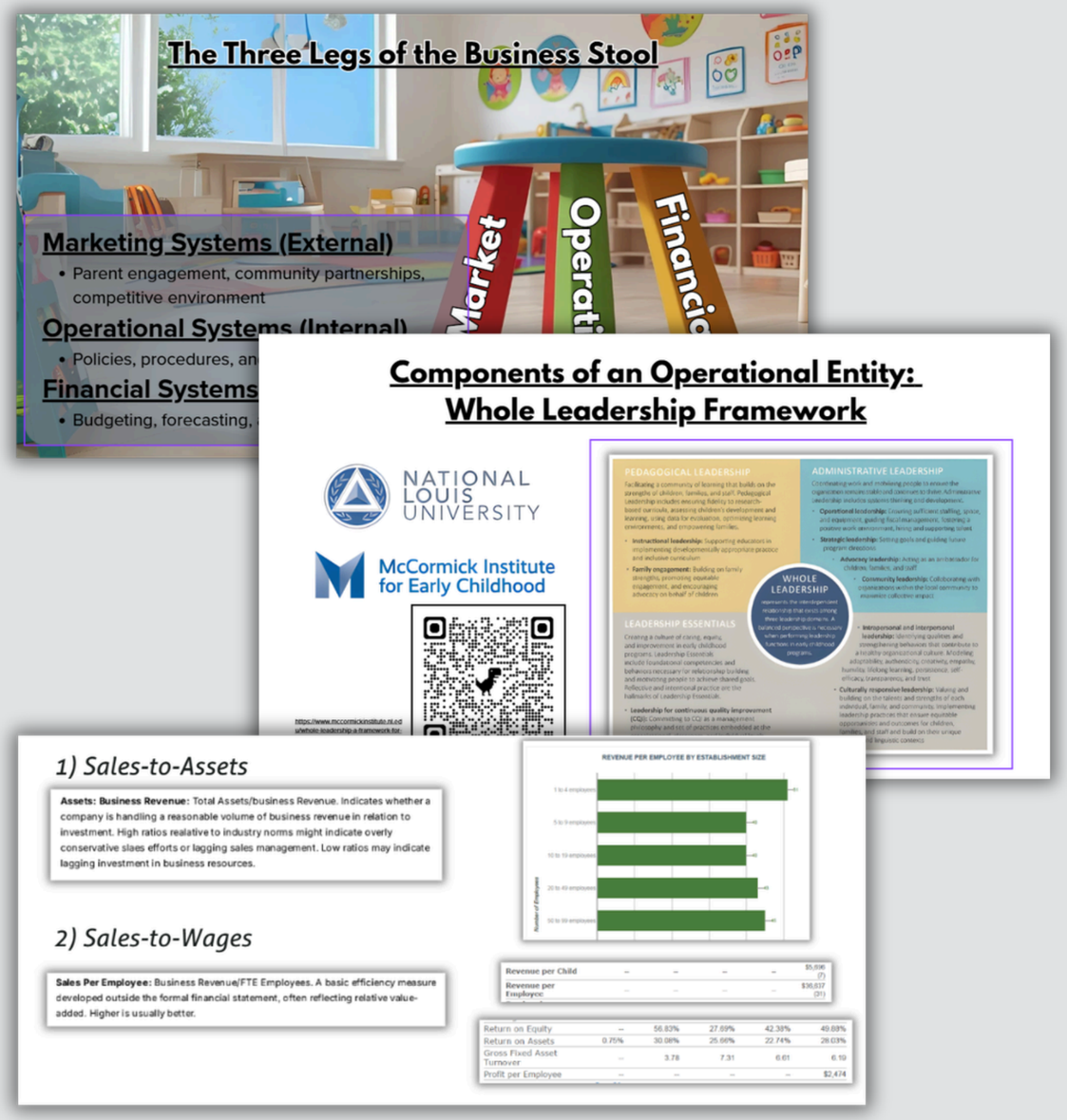
This does not necessarily mean families pay more!

But it does mean we have to change how we think about:
Affordability
Earned income
Who pays for services they are benefitted by

The goal is not higher tuition
The goal is fully covered costs

SIMPLIFIED BUSINESS FRAMEWORK

- **Three Legs**
  - Market
  - Operations
  - Financials
- **Leadership**
  - McCormick Institute's Whole Leadership Framework
    - Leadership Essentials
    - Administrative Leadership
    - Pedagogical Leadership
- **Two Key Business Ratios**
  - Assets-to-Revenue
  - Wages-to-Revenue



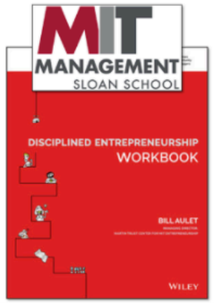
IN THE OPPORTUNITY BLUEPRINT FOR I/T SERVICES

Key Point #1 is about Mindset Shifts

- **Beachhead Markets**
  - Tuition isn't only Earned Income Source
- **Innovation Equation**
  - Problem+Solution=Opportunity

Beachhead Markets

Bill Aulet, Managing Dir
Center at MIT Sloan Sch



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.

Let's start with an explanation of how entrepreneurs identify business opportunities.

In entrepreneurship, there is a phrase the "Innovation Equation." What is it?

- Problem + Solution = Opportunity

Information of some kind tells us there is a **problem**: *Not enough I/T slots based on the indicated demand for care based detailed age group.*

Most new or expecting parents will tell you: *We've been on a waiting list for months. I still haven't had my baby and there aren't any openings.*

Therefore, the problem is that there are quantifiable and anecdotal indicators of a shortage of I/T care. The entrepreneurial mindset then thinks: *Is there a business opportunity here?*

By definition, businesses create **solutions** to problems faced by customers and capitalize on those solutions by selling products and services to those who face the problem and need a solution for it.

If we recognize the problem and create a solution, we are acting like businesses in a free market economy. To be a financially viable **opportunity**, the **solution** itself must indicate potential financial gain through the delivery of services that solve the problem.

Revenue Diversification

ECEs should also move toward additional types of earned income sources to ensure tuition is not the only type of revenue coming into the business.

Increasing Control & Reducing Uncertainty

All of these payer options are on the table.

The shift comes from thinking more broadly about who pays and how they pay.

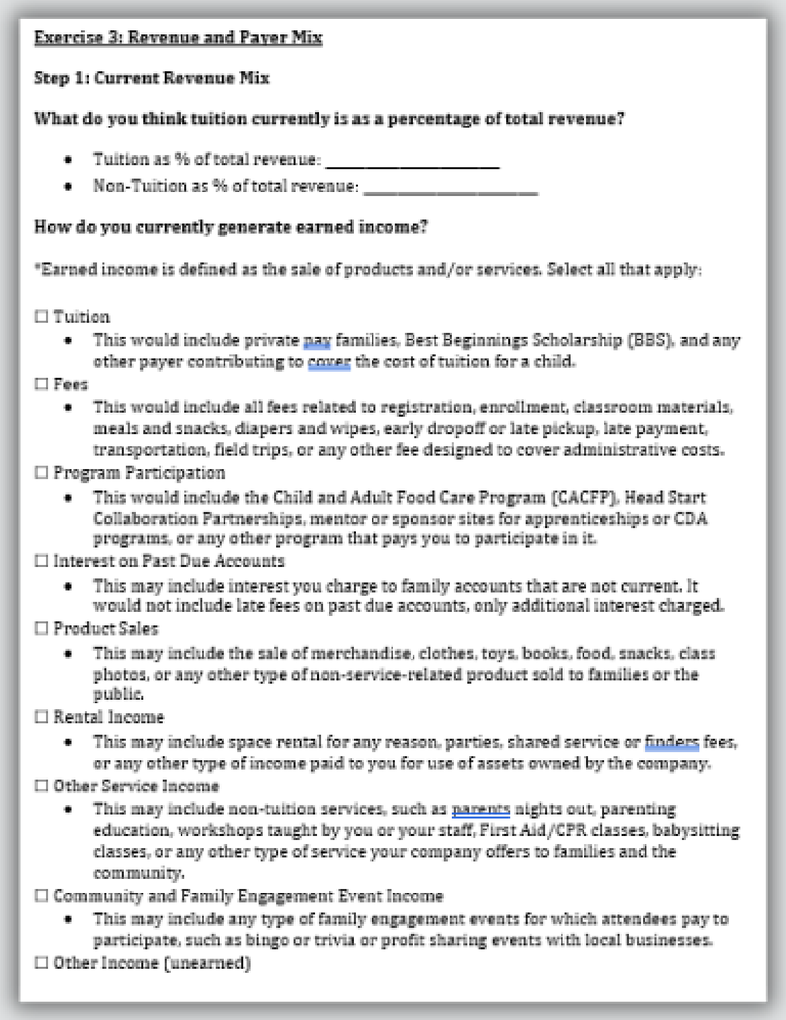
Private pay, subsidy pay, and program participation are the primary sources of earned income. Donations, grants, and receiving philanthropy place too much speculation and uncertainty on an organization's operating budget.

Programs MUST work more closely with employers of enrolled families to address the affordability issue so that the true cost of care per child is covered. Who pays for the primary service? Individuals, subsidy sources, **and** every other source primarily and secondarily connected to the child and family. This approach gives the provider the greatest amount of control to manage earned income while dedicating time to program administration rather than being pulled away to something more speculative.

IV. BE INTENTIONAL ABOUT REVENUE

Step 1 - Revenue Mix

Exercise #3



Exercise 3: Revenue and Payer Mix

Step 1: Current Revenue Mix

What do you think tuition currently is as a percentage of total revenue?

- Tuition as % of total revenue: _____
- Non-Tuition as % of total revenue: _____

How do you currently generate earned income?

*Earned income is defined as the sale of products and/or services. Select all that apply:

☐ Tuition
- This would include private pay families, Best Beginnings Scholarship (BBS), and any other payer contributing to cover the cost of tuition for a child.

☐ Fees
- This would include all fees related to registration, enrollment, classroom materials, meals and snacks, diapers and wipes, early dropoff or late pickup, late payment, transportation, field trips, or any other fee designed to cover administrative costs.

☐ Program Participation
- This would include the Child and Adult Food Care Program (CACFP), Head Start Collaboration Partnerships, mentor or sponsor sites for apprenticeships or CDA programs, or any other program that pays you to participate in it.

☐ Interest on Past Due Accounts
- This may include interest you charge to family accounts that are not current. It would not include late fees on past due accounts, only additional interest charged.

☐ Product Sales
- This may include the sale of merchandise, clothes, toys, books, food, snacks, class photos, or any other type of non-service-related product sold to families or the public.

☐ Rental Income
- This may include space rental for any reason, parties, shared service or finders fees, or any other type of income paid to you for use of assets owned by the company.

☐ Other Service Income
- This may include non-tuition services, such as parents nights out, parenting education, workshops taught by you or your staff, First Aid/CPR classes, babysitting classes, or any other type of service your company offers to families and the community.

☐ Community and Family Engagement Event Income
- This may include any type of family engagement events for which attendees pay to participate, such as bingo or trivia or profit sharing events with local businesses.

☐ Other Income (unearned)

To the best of your ability, take a guess:

- What do you think tuition currently is as a % of total revenue?
- Non-Tuition as a % of total revenue?

What do you think this means when a cost like insurance goes up?

- What actions do you/will you take if insurance goes up 150% next year?
- Food costs rise 20%?
- Labor costs rise 15%?

IV. MOST COMMON BUSINESS MODELS

Tuition-derived Income typically 94-99% of Gross Revenue

Model 1 - I/T as Loss Leaders

- Primary Age Groups: 3-5 (60-80%)
  - Primary profit center
- Secondary Age Groups: 0-2 (10-35%)
  - Typically a Loss Leader with goal of Lifetime Value
- Tertiary Age Groups: School Age - Early/Late/Summer (5-10%)
  - Secondary profit center if part of business model; Typically excellent margins but low dollar amounts

---

Model 2 - I/T not part of Business Model

- Primary Age Groups: 3-5 (90-100%)
  - Primary profit center; Often only profit center
- Secondary Age Groups: 0-2 (0-10%)
  - Typically a Loss Leader with goal of Lifetime Value
- Tertiary Age Groups: School Age - Early/Late/Summer (0-10%)
  - Secondary profit center if part of business model; Typically excellent margins but low dollar amounts

IV. GOAL - BUSINESS MODEL SHIFT

Tuition-derived Income goal of 87-90% of Gross Revenue

Model 3 - For Consideration

- Understand Competitive Environment
- Evaluate Supply-Demand
- Build Business Model that meets Supply-Demand
  - Business Model designed based on viability, market demand, & competitive environment
    - Primary Age Groups: 0-3 (60-80%)
    - Secondary Age Groups: 4-5 (10-35%)
      - Including early/late, afterschool, & summer
    - Tertiary Age Groups: School Age - Early/Late/Summer (5-10%)

IV. BE INTENTIONAL ABOUT REVENUE

Step 2 - Additional Sources of Revenue

Exercise #3

Step 2: Identify Additional Revenue Sources. How else could you generate income through the sale of products or services that are not tied to philanthropy or grant-seeking?

- ☐ Tuition
- ☐ Fees
- ☐ Program Participation
- ☐ Interest on Past Due Accounts
- ☐ Product Sales
- ☐ Rental Income
- ☐ Other Service Income
- ☐ Community and Family Engagement Event Income
- ☐ Other Income (unearned)
- ☐ Other: _____

Most of these additional revenue sources are referenced in PAS & BAS?

IV. BE INTENTIONAL ABOUT REVENUE

Step 3 - Payers

Exercise #3

Step 3: Payers

Who typically pays for products and services?

- ☐ Families/Private Payers
- ☐ Subsidy (BBS/CCAoA)
- ☐ Employers
- ☐ Community Endowments or other Community Scholarship Sources
- ☐ Other: _____

Perhaps the hardest thing to change will helping other employers understand who is vested and who is benefitted by your ability to provide services.

IV. BE INTENTIONAL ABOUT REVENUE

Entrepreneurs' childcare issues impact their ability to run their businesses

SMALL BUSINESS MAJORITY

- Small business employees frequently experience schedule disruptions:
  - **Nearly three-quarters of entrepreneurs** say that their employees adjust their work schedules due to childcare issues at least a few times a month.
- When employees experience childcare issues, small businesses struggle:
  - 51% experienced lower productivity
  - 44% been unable to operate longer hours
  - 31% lost revenue or earnings
  - 28% had to hire temporary workers

Source: Small Business Majority, April 2024, Opinion Poll: Small businesses support policy solutions to address our nation's childcare challenges

https://smallbusinessmajority.org/our-research/workforce/opinion-poll-small-businesses-support-policy-solutions-address-our-nation-s-childcare-challenges

SO…WHO'S VESTED & BENEFITTED

Regional Tax Base

Regional/Local Employers

End Users

THEREFORE...

We encourage a re-thinking of who pays for services because of who is benefitted by the workforce.

Private Payers

Subsidy Payers

Employer Benefit Plans

FAMILY Forward MONTANA

Solutions for Employers and Families

Scan Me!

THERE'S A TAX CREDIT FOR THAT!

IRS

Employer-provided child care credit: Tax year 2026 an
Revenue Service

Find provisions for tax year 2026 and later for this credit for er
employees with child care services.

irs.gov

IRS 45F Employer-Sponsored Child Care Tax Credit

Resources specific to the 45F Employer provided child care tax credit & how it can be used for employee recruitment...

Montana Childcare Bus

IV. BE INTENTIONAL ABOUT REVENUE

Step 4 - Reflection

Exercise #3

Step 4: Reflection

What could realistically reduce reliance on tuition in your program?

_____

_____

_____

_____

HIGH QUALITY DECISION MAKING

Final Decision Reflection

If you remove hope from the equation, does offering or expanding infant-toddler care work in your program? ☐ Yes ☐ Maybe ☐ No

Why?

_____

_____

_____

_____

What is your next step?

_____

_____

_____

_____

FINAL TAKEAWAYS

Infant-toddler care is expensive...

- *Losing money on it is not inevitable*

The problem is the model...

- *The solutions are:*
  - *true cost clarity*
  - *unit-level pricing*
  - *diversified revenue*
  - *diversified payers*

Data that is...

- *Localized to the community, the business, the classroom, the teacher, the unit...the child*

FINAL TAKEAWAYS

What did you just build?

- *A decision-making framework, based in:*
  - *Market viability*
  - *Cost clarity*
  - *Revenue options*

Choosing not to do I/T is not a failure

- *It is a high-quality decision from a high-quality leader*

To be in the business of early childhood education

- *We must be in business first, AND remain in business second*

Innovation is necessary…Problem+Solution=Opportunity

- *The old ways don't get it done anymore*

Questions?

WE ARE HERE TO HELP

COACH | COUNSEL | ADVISE | TRAIN

You are not alone!

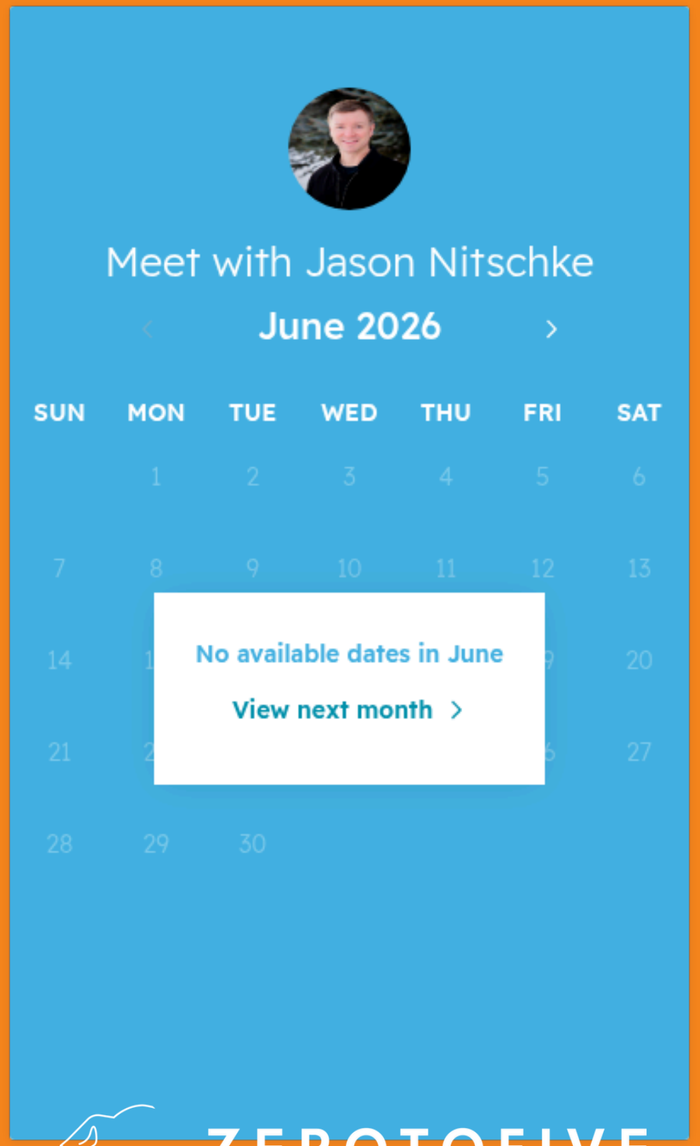
JasonN@ZerotoFive.org

https://zerotofive.org/

https://childcarebusinessconnect.com/

SCHEDULE ANYTIME

https://meetings.hubspot.com/nitschke



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MONTANA CHILD CARE BUSINESS CONNECT

ZEROTOFIVE MONTANA