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An introduction to per-child cost analysis

Exploring Different Scenarios

Before exploring scenarios, it is important you spend time reviewing the **Per-child cost analysis workbook**. Become comfortable with the worksheets – their columns and rows and what the numbers represent. Once, you have entered your own staff costs, tuition rates, and monthly expenses, you should be able to comfortably answer the following questions:

- ▶ What is the average group tuition income per week? Per month?
- ▶ What is the annual net income per group?
- ▶ Is **annual net income** for the center negative or positive? Which programs, if any, are being subsidized by other programs?
- ▶ What is the **Utilization Rate** for each group? What do you want this to be?
- ▶ What are the full-time equivalent children enrolled per classroom?
- ▶ What number of kids are needed to breakeven in each classroom?

Before moving onto a scenario, save the Master Spreadsheet. Select “File”, “Save As” and add an extension to the file name, such as the scenario name. For example: “Per Cost Child Analysis.Add A Classroom”. **Do a “Save As” from the Master File, each time you want to start a new scenario.**

After each scenario, you should review the *Output* worksheet and ask, ‘**What has changed?**’ Each time you run through a scenario answer the following:

- ▶ What happened to annual profit/loss per classroom? For the whole program?
- ▶ What happened to the utilization rate?
- ▶ What happened to the break-even number per classroom? Are more or less children needed?
- ▶ What happened to expenses? To Income?

Scenario 1 - Add a Classroom

You decide – add an infant room, a second toddler room.

- ▶ Determine how many staff will be needed and what they will be paid.

- ▶ Determine how a second classroom will impact your expenses? What new or increased expenses will you incur? Expenses that are likely to increase are food, program supplies, cleaning supplies, staff development. What else?
- ▶ Determine the tuition for the new classroom? Add the tuition to the Tuition worksheet

Questions/Other considerations: Are there up-front costs to adding a classroom, such as new equipment or program supplies? Does the physical space need to be expanded or renovated? You want to know these numbers for planning and assessment – you may not necessarily enter them into this workbook, but you need to know up front cost to move forward.

Scenario 2 - Adjusting Enrollment

Do you have a classroom that is not breaking even? Do you have a classroom where you can add more children and not increase staff? If so, work with those. Or you can simply adjust enrollment in a classroom with a higher tuition rate and reduce it in one with a lower tuition rate by the same number of children.

- ▶ Do the adjustments in enrollment impact staffing? Expenses? Make appropriate changes.

Questions/Other Considerations: Do the enrollment changes improve or weaken financial performance? Do enrollment changes impact program quality?

Scenario 3 - Adding Program Services

Add a new service, perhaps a family night offered three times per year or a new music program.

- ▶ What new expenses will be incurred – add those.
- ▶ Will staff time be needed? If so, adjust hours for staff accordingly?

How much is needed to cover the cost of the new service? Can the center afford it? Can the funds be found in the budget? Play with your budget – are there cost savings? Are there income opportunities? Are there other options?

Scenario 4 - Staff Raises

Increase staff salaries, across the board, by a set percentage. Try a different percentage? Make note of what changed. Make salaries what you wish they could be. Can some classrooms support raises but not others? Are there cost savings or income opportunities that can support staff raises?

Scenario 5 - Room Staffing

Are there any inefficiencies in room staffing? Can you reduce staff? Can you move staff around? Make some adjustments? What happens?