

## What To Do When the Money Runs Out

# Surviving Tight Times

by Roger Neugebauer

“Daddy said tight times is why we all eat Mr. Bulk instead of cereals in little boxes.”

In the children’s book *Tight Times* Barbara Shook Hazen portrays a little boy learning what financial crises are all about. Anyone who works in a child care center probably needs no such introduction. As in nearly all small businesses, financial ups and downs are a seemingly inevitable part of the organizational life cycle. Leading one’s center through tight times is an unwritten yet central aspect of all center owners’ and directors’ job descriptions.

However, if your center is now facing a financial crisis, you know that it will take more than serving Mr. Bulk instead of cereals in little boxes to pull through. It will require an array of aggressive actions as well as a large measure of tenacity. The following are some of the strategies recommended by small business experts to help for profit and non profit centers survive tight times.

### Find Out What’s Wrong

Neighborhood Child Care Center was broke. Director Jones, assuring everyone

that this was just a temporary shortfall, whipped up enthusiasm for a major fundraising effort to pay off all the center’s debts. Much to everyone’s surprise, three months later Director Jones was again rounding up support for another fundraiser to help the center over another temporary crisis.

The reason that Director Jones’ solutions failed is that she never grasped what the real problem was. If she had taken the time to analyze the situation, she would have found that the center’s enrollment had been gradually, yet steadily, declining over the past six months. To solve the problem, Director Jones needed to focus her energy on building enrollments, not on organizing one-shot fundraisers.

For profit center operators can experience a similar blindness to reality. I once observed, for example, a center owner who kept borrowing more and more money to get by “temporary cash flow crises.” Unfortunately, he ignored the fact that over the years his expenses had crept up and up, while he had not raised parent fees significantly. In other words,

his cash flow problems were not the result of temporary setbacks, but rather the fact that his budget was fatally flawed.

One of my favorite Monty Python skits is the “Changemakers.” In this skit a banker explains their popular new program of providing customers with \$1.05 in change for \$1. When asked how the bank could possibly make money on this arrangement, he replied, “Oh, that’s simple — volume.”

When your center is running on empty, it is critical to find out why. You need to know if you are spending \$1.05 for every \$1 you take in.

You can’t solve a problem until you know what’s causing it. You should be able to get to the heart of the matter by finding answers to the following questions:

### ***Are your income and expenses in line?***

Often, as in the case of Neighborhood Child Care Center, directors’ valiant efforts to keep their centers in the black only serve to mask a fundamental problem. This underlying problem frequently has to do with the bottom line. Sometimes centers keep encountering financial crises because their costs of doing business have inflated to the point where their fees (whether they are paid by parents or a public agency) are no longer high enough to cover expenses.

When tight times arrive, one of the first things a director should do is to perform a breakeven analysis. The purpose of this analysis is to determine your breakeven point — the fee level above which your center is making money and below which it is losing money.

If your fees are set well above your current breakeven point, you know that you

need to look elsewhere for the cause of your financial problems. If your fees are set close to, or below, the breakeven point, this is undoubtedly a major cause (but sometimes not the only cause) of your problems.

Large organizations will need to perform separate breakeven analyses for each distinct cost center. For example, if your organization has a separate fee scale for its infant, preschool, and after-school components, each component should be analyzed as a separate cost center. If your organization provides care in more than one location, you may want to analyze each site as a separate cost center.

Following this approach you may find, for example, that your preschool and after-school components are operating above their breakeven points; but, your infant component is so far below breakeven that it is dragging the whole operation under. Or, you may find that you are making money in certain locations, but losing it in others.

### ***Is your enrollment declining?***

Go back and check your enrollment records for the past few months. Is your enrollment increasing, holding steady, or declining? How does it compare to the same time last year?

If your enrollment is declining, you need to know why. There are three likely culprits, each requiring different actions on your part.

■ **Customer satisfaction may be eroding.** This can happen to any center, but it is a particularly common affliction in centers that have enjoyed extended periods of success. Month after month of long waiting lists and positive press coverage can lull any staff into taking parent satisfaction for granted. In the success mode it is easy to relax and fail to attend

to all the details that make a difference in the program; to fall into a rut and become less creative and spontaneous; to stop taking the time to really communicate with parents.

Call up a random selection of your parents and talk to them informally about their attitudes about the program and where it is headed. Spend some time observing staff-child interactions in the classrooms and staff-parent interactions at drop-off and pick-up times. Talk to staff members to see if they have noticed any changes in the program.

If you find that your quality is slipping, you must act immediately to turn things around. Make restoring customer confidence your top priority. Give program improvement high profile in staff meetings, written communications, and in frequent personal tours of the classrooms. Keep in touch with parents to see if the results are being noticed.

■ **Competition may be heating up.** Five years ago you may have been the only show in town. But today, there may be a number of centers that are chipping away at your customer base.

Conduct exit interviews when parents withdraw their children from your center. Do follow-up calls to parents who made initial inquiries about your center but did not enroll their children. Find out why parents are electing to place their children in centers other than your own.

Once you determine what your competitors' advantages are, you need to decide how to respond. For example, if you are losing customers because the other centers' prices are lower, you may choose to lower your prices as well. However, in doing so you may dilute your quality to the point where you drive away your firmest supporters. An alternative might be to raise your prices and gear your program more specifically towards families

that are willing and able to pay for high quality.

■ **Your market may be changing.** Demographic shifts may be occurring in your community that are impacting the demand for your services. Maybe the neighborhoods around your center are aging, so there just aren't as many preschool children as there used to be. Maybe your neighborhoods are being overrun by Yuppies who are looking for a glitzier program than you provide. Maybe household incomes aren't keeping pace with inflation, and families can't afford you anymore. Maybe your traditional funding bases, such as the United Way or the Junior League, no longer see child care as a priority.

If your market is changing dramatically, you may be fighting an uphill battle. Temporary infusions of cash may keep the program afloat for a few months, but at some point you will need to face some tough decisions. It may be necessary to change your location, to substantially reduce your operations, or maybe even to call it quits.

### ***Are your receivables mounting?***

Caring is what running a center is all about. Sometimes, however, a director can become so concerned about caring for people that she avoids pressing them when they get behind in paying their fees.

Take a look at your accounts receivable report. Has the bottom line been building up from month to month? Is your laxity in collecting overdue fees starting to undermine the financial stability of the center? If there is a problem developing in the receivables area, you need to respond quickly and firmly. The longer you delay in responding, the more you will end up writing off as bad debts.

## Monitor Cash Flow Diligently

Once you have discovered the source of the problem, you need to determine how serious it is. The best way to do this is by preparing a cash flow analysis. Such an analysis enables you to predict when your center won't have enough cash in the bank to pay its bills and how big the deficit will be.

Routinely, cash flow projections should be made on a monthly basis. However, when tight times arrive, it is advisable to monitor cash flowing in and out of your center on a weekly basis. This will enable you to pinpoint most accurately the weeks where money will be the tightest as well as those weeks where you may have a little breathing room. This information is extremely helpful because it gives you a clear picture of the extent of the problem.

As you proceed through a rocky period, you will find that the weekly cash flow projections are also an invaluable tool for working on solutions. By keeping the projections up-to-date, you can closely monitor your progress, or lack thereof, in dealing with the problem. You can test out various proposed solutions to see their impact. For example, you could hypothesize, "What if we raised fees in the infant room by \$2 per week?" plug the new income projections into your cash flow, and see how that impacts the bottom line week by week.

### Trim the Fat

When your financial ink turns red, your first thought is often, "Where can we cut back?" This is, in theory, the reasonable thing to do. But, in practice, it may not do the trick. After you exempt those expenditures you are contractually bound to, those you can't cut without a

corresponding reduction in income, and those that would detract noticeably from program quality or staff morale, you often are left with little fat to trim. Nonetheless, in tight times you do need to analyze the savings potential in each line item in the budget to see if there are some real opportunities to absorb some of the red ink. The most effective way to do this is to list the monthly allocation for each line item and then to calculate the percent each line item would have to be cut in order to save \$100 (divide 100 by the amount of each line item). A quick review of the resulting figures will identify those areas where significant cuts can be made without a dramatic negative impact on the program.

### Slow Outflow of Cash

If cutting costs doesn't seem to be the answer, deferring costs is another approach that can help an ailing cash flow. If planned major expenditures (such as resurfacing the playground) can be delayed for weeks or months, this can often help more than making painful budget cuts.

At the outset of a crunch period, you should also consider meeting with your major creditors to see if they would be willing to extend your credit. If you owe a sizable amount to a bank, for example, you should explain your financial dilemma and request a restructuring of the note. While bankers will grunt and groan and make all sorts of *our-hands-are-tied* statements, basically they will do what they have to do to get their money back. If they drive you out of business by holding you to the original payment schedule, they stand to be the losers. (See the box "How to Keep the Wolves from the Door" for more thoughts on how to deal with people trying to collect money from you.)

## Speed the Inflow of Cash

Looking now at the other end of the cash flow equation, red ink can also be combated by speeding up the rate at which money owed to you is collected. There are a number of steps you can take in this regard:

- **Invoice promptly.** You can't expect people to pay you on time if you are tardy in billing them.
- **Reward early payers.** Announce a discount for paying within the first few days of a billing cycle, or an even larger discount for paying in advance.
- **Punish late payers.** Announce penalties (in line with state regulations on interest charges) for late payments, and enforce them religiously.
- **Stay on top of overdue fees.** Don't let late payers get very far behind without letting them know you are on their case. Directors have found that if families get more than three months behind in their payments they are much more likely to drop-out than to pay up. By getting in touch with families falling behind early and working out short term, spread out, repayment plans, you are much more likely both to retain them as your customers and to eventually receive payment in full.
- **Expedite other income.** If you have been awarded a grant by a local business or United Way, see if you can receive the money early, or secure a temporary loan from a bank in anticipation of this income. See if you can get the state to pay you monies they owe you early or on time (we had to throw this one in for laughs). If you have an annual fundraiser, check into scheduling it earlier this year.

## Explore New Income Sources

Pumping new currency into your center's money veins can also be invigorating. When a cash flow crisis is on the horizon, you could call a meeting of key people within your organization who have a stake in its success, as well as resourceful people from outside who care about your organization. Use this as an occasion to brainstorm all kinds of ways your center could generate new money. The possibilities come in all shapes and sizes:

■ **Raising fees** — for everyone, for new enrollees only, or for certain cost centers.

■ **Boosting enrollment** — turning around declining enrollments or over-enrolling to maintain nearly full capacity.

■ **Expanding the program** — adding an after-school component, adding two more children to each current classroom, opening a new center.

■ **One-shot activities** — dinners, fairs, house tours, raffles, auctions, cookbook sales, and jog-a-thons.

■ **One-shot appeals** — annual membership drives, jog-a-thons, direct mail solicitation campaigns, corporate appeals, one-on-one appeals.

■ **Annual events** — taking a one-shot activity or appeal and repeating it every year.

■ **Ongoing activities** — parenting seminars, convention child care, week-end activity classes, computer classes, family kitchens, thrift shops.

■ **Grants-in-aid** — foundation grants, United Way funding, public funding, local grants.

■ **Loans** — from banks, the SBA, local business people, Aunt Emma.

■ **Investments** — forming a partnership, securing outside investors, selling shares.

Once you have a long list of possibilities, evaluate each one in terms of the following criteria:

■ **How soon will it generate income?** If you are going to be \$3,000 in the red in three weeks, and the idea under review won't kick in for two months, keep looking.

■ **Is it cost effective?** Estimate how much income the idea would generate, how much it would cost to carry it out, and divide the balance by the number of person-hours required to carry it out. This computation will tell you how much profit you will generate for every hour of effort. Successful fundraisers generate anywhere from \$25 to \$200 per hour. If a project will produce less than \$10 per hour of effort, think twice before giving the go-ahead.

■ **Do we possess appropriate resources?** In their popular book, *In Search of Excellence*, Thomas J. Peters and Robert H. Waterman, Jr. observe that one of the traits of successful businesses is that they stick to their knitting, they know what they are good at and don't go far afield in developing new products or services. In evaluating new income generating thrusts for a child care center, you need to question whether this is an activity that builds on your current strengths (where you have people — paid or volunteer — with appropriate skills, space, and materials that are appropriate, and an established reputation in the area) or one which would require your organization to start from scratch.

■ **What is the likelihood of success?** During a financial crisis, the time of the

director and other key center people needs to be focused exclusively on high impact activities. Time wasted on non-productive or marginally productive activities could spell the difference between surviving and failing. Putting together a prospectus to attract investors can take weeks and weeks of top management time, as can putting together a grant proposal for a foundation. Yet in both cases the likelihood of success is extremely low. Before committing that kind of time to an activity, you need to do some preliminary research which assures you that you are not diverting much needed energy into a dead end project.

■ **What are the side-effects of the idea?** If we raise our fees, will we lose half our customers? If we start another center, will we have to pull too many of our best teachers away from our existing center? If we attract an investor, will we have to turn over too much control to a third party? If we get a United Way grant, will we be bogged down in their red tape? If we get a loan from Aunt Emma, will we feel guilty until we pay her back?

After weighing all these issues, you should be able to identify several hot ticket income generators. You can now throw these into the hopper with all your other potential cash flow solutions — ideas for speeding up income, deferring expenses, and cutting expenses. From among all of these possibilities you will need to construct a combination of actions that will pull you out of debt.

## Hang In There

Tight times can cause more than a financial strain. Eventually they cause excruciating emotional and physical strain for the leaders of the organization.

Al Masini has observed that nothing raises the energy reservoir like success and nothing depletes it like failure. Work-

## How to Keep the Wolves From the Door

How do you keep your creditors satisfied when times are tight? Here are some pointers:

■ **Goodwill is money in the bank.** Anyone with a thick enough skin can stave off creditors indefinitely. However, while a totally hard-nosed approach may help you survive a crisis, what price will you pay? If you alienate everyone you buy services and supplies from during tight times, they may refuse to do business with you when the good times arrive. Even when the creditors are pressing hard, you should strive to salvage some degree of goodwill by treating them in a respectful, business-like manner.

■ **Creditors don't like surprises.** When you know you are going to have a problem meeting a financial obligation, call the creditor in advance to let him know you've got a problem. This demonstrates that you take your obligations seriously and gives him time to adjust his cash flow projections. A creditor will be much less conciliatory if he has to call you after your account becomes delinquent.

■ **Honesty is still the best policy.** Popular myth has it that you keep creditors at bay through a series of deceptions — “Haven't we already paid that? I'll have to check our records.” Such transparent ruses tend to aggravate creditors and motivate them to become more aggressive in their actions against you. Honestly explain that your center is experiencing a severe, yet temporary, cash flow problem and that you will pay what you owe as quickly as you can.

■ **Promise only what you can deliver.** Creditors will want you to commit to a repayment schedule. Unless you are really certain about improving prospects in the near future, avoid making specific commitments. If you fail to meet a new due date, you are going to double a creditor's frustration.

■ **Less is more.** Try to make small partial payments periodically to all creditors, rather than paying in full the ones that scream the loudest. Even a trickle of cash will let creditors know your center is still in business and that you are serious about paying your bills.

■ **Don't blame the victim.** Tight times can be incredibly trying, so when a creditor calls and harasses you for his money, it is very easy to become angry and vent all your frustrations. You must keep in mind, however, that the reason he is pressing you is that he provided something to you in good faith and now you have violated the agreement. He has every right to press you. If you find yourself becoming upset by what a creditor is saying when he calls, don't lash out emotionally. Tell him you will call back with an answer, and then wait until you have cooled off and developed a logical response.

ing hard on a venture that is taking off is exhilarating, but slaving away on a venture mired in red ink is enervating.

Worrying about money for weeks on end is mentally and socially taxing. After

awhile you eat, sleep, and drink cash flow. All you can think or talk about is whether you can meet the payroll on Friday. You end up being a not very fun person to be around.

Having creditors insult you, swear at you, and threaten you gets to be a drag. Friendships turn sour as you fall behind on financial obligations. As Orson Welles remarked, “When you're down and out, something always turns up — and it's usually the noses of your friends.”

What often determines whether an organization survives a financial crisis is the tenacity of the persons at the top — their ability to endure all the strain and work effectively toward a solution. Actress Helen Hayes once commented that talent and ability are not enough: “Nothing is any good without endurance.”

Not only must the leaders of the center hang in there, but they also must maintain a positive public attitude. Although your inner self may be crying out for pity, you can't afford to cry on the shoulders of your customers or your staff. If parents get the message that your center is on the rocks, they will start looking for a more stable child care arrangement. Staff, likewise, may start abandoning a ship that they believe is sinking.

This is not to say you should deceive parents and staff into thinking everything is rosy. If you don't say anything, rumors of all sorts will start flying as soon as the first signs of red ink appear. When you are about to experience an extended dry spell you should inform staff and parents in a businesslike manner that cash flow difficulties will call for some careful budgeting over the coming weeks. But assure them that the long term projections are positive, so that any inconvenience will be temporary.

Then, when good times arrive, throw a party.

## Don't Let It Happen Again

After you mount a prodigious effort and pull through a financial crisis, it is easy to succumb to traumatic amnesia — you forget about how bad things were. You are so relieved to have survived that you let your guard down and relax too long. And before you know it, the grocer is calling to find out when he can expect payment on his overdue invoice. To avoid this cycle:

- Do keep your finger on the financial pulse of the organization.

- Don't let up on closely monitoring the cash flow.

- Do periodically check your break-even points to make sure you are not involuntarily becoming a charitable institution.

- Do develop an annual budget and monitor your performance monthly.

- Don't confuse growth with profits. Remember, just because your organization is getting bigger, it is not necessarily doing better on the bottom line.

- Don't live it up too soon. After your checkbook shows a positive balance, don't rush out and make all the purchases you put off.

- Do work to reestablish a solid credit rating. Pay your bills promptly. Supply your banker and funders with monthly balance sheets and income statements. Apply for an adequate line of credit after an extended period of solid financial performance. If you are a non profit, you will likewise find it easier to ask for support from funders when you are operating in the black. Charitable donors are much more inclined to invest

in vision and vitality than they are to cover debt and dysfunction.

- Do stay close to your customers. Don't get so preoccupied with the numbers that you forget who is paying the bills. Stay tuned to their concerns, their needs, their changing means.

- And, last but not least, don't make the same mistake twice. As Ted S. Frost suggests, "If you're going to get yourself into financial trouble again, at least have enough class to think up some different way of doing it."

*Note: An earlier version of this article appeared in the January 1987 issue of **Child Care Information Exchange** and has been updated by the author for this issue.*

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