

**Business Plan For:**  
**CC DAY CARE CENTER**

Lili Lako

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## Summary

CC Day Care Center (CC) will be formed in July 1995 in the city of South Orange, New Jersey, as a partnership. The dynamic team that will be responsible for the daily operations of the day-care center will be the manager director (Lili Lako), a personal assistant, an accounts clerk, an administrative staff, three lead teachers, and two teachers' aides. CC will hire professional company secretaries, auditors, and maintenance personnel to handle these three aspects of the business. This business promises to be very lucrative for the following reasons:

1. There is a great need for an excellent day-care center in the city; at present there are none. The actual market for this service is substantial (the child population is 87,570), and has a potential 20 percent annual growth in the next two to three years.
2. The initial target market, which is only 2 percent of the ultimate target market, has virtually no competitors, and this gives CC the easy entrance it needs at the start.
3. The prime location in the upper class, Kenny Hills area is ideal for a center of this nature, and the residents are willing to pay for the services that will be offered.
4. CC's ability to accomplish its goals and lead in the industry is significantly related to the know-how and ability of the management to recognize the great need of the area and seize the opportunity to capitalize on it. The high standards that CC will set will make it difficult for unscrupulous competitors to enter the market. This will reduce the competition to only those who can match the high quality of service set by CC and still be able to make a profit.

As a result of these conditions, CC believes that it has a unique opportunity to provide the best quality of service in the city at very appealing prices and capture a sizable portion of the whole market in five years.

## Company Analysis

### Background of the Company

CC Day Care Center will be the name of the child-care service to be started in South Orange, New Jersey, in 1995. The company is named after Lili Lako's (LL) three-year-old daughter, Carol.

Carol's Carousel (CC) will be a partnership. LL's husband, Stuart Lako (ST), will be the other partner, who will initially assist in setting up the business. ST is a business major who has vast experience as an entrepreneur. Currently ST is the owner of a medium-sized advertising agency in South Orange. ST wants to broaden his business base and is therefore looking to invest in other services. ST also has a wide network of business associates who are looking for lucrative businesses to invest in; this will be extremely useful in the near future, should the need arise for more capital!

LL will be responsible for the daily running of the business. The main purpose of the company is to provide an all-day child-care service to the upper-class community of *Kenny Hills* in South Orange. The average income in Kenny Hills is about \$100,000 annually. There is currently no such service being offered in this area.

Initially, there will be one personal assistant, at least one administrative and accounting staff member, and the other personnel will consist of lead teachers (Masters in Education) and teachers' aides (i.e., teaching certified but trained by CC's own lead teachers). The number of

personnel will grow with the increase in the number of children per day. The ratio of teachers to children will be about 1 to 15, and this is to be the initial selling point. The wealthy are very concerned about the personal attention their kids are receiving; they do not mind at all paying for this attention.

### **Service Offered**

The philosophy of CC is based on the following:

- a. Children between the ages of three and six cannot stand conformity, so their work will be less structured. However, their curriculum will include Math, English, Science, Social Studies, and an additional language taught through the latest methods (through games, cooperative learning, etc.).
- b. Children should be self-directed. This concept teaches the children to work independently of the teacher. This will be preparation for the future when the company has grown. This new concept that "a small class does not necessarily mean better" will have to be introduced with utmost care, because we began with just the reverse as our marketing strategy.
- c. The children here will be taught to be self-motivated, to survive in any environment, and to have positive self-images. Positive reinforcement will be highlighted!
- d. The service should meet high standards, which will be monitored closely; the "homey" yet professional educational support provided will be the key ingredient.

The service CC will be offering will be aimed at rich families where the parents are occupied with their own careers and need to be assured that their children are safe while being educated. Many rich wives may not have careers of their own but may have social obligations that take them away from their homes. They, too, need to be confident that their kids' needs are well taken care of!

### **Market and Customers**

The major market that CC will serve will be the wealthy community of the Kenny Hills region in the heart of South Orange. There are many such rich communities in the city, but this will be the first group focused on. The total population of this area is approximately 3,600; however, CC initially will be addressing only about 10 percent of this market. This is mainly due to the limited capital; CC's owners will "dig deep into their pockets" because they do not want to start the business with the heavy burden of debt.

### **Capital**

The capital that has been set aside for the business is between \$65,000 and \$75,000; this will include the initial start-up cost plus the cost of all the necessary equipment that is required of a business of this nature (see list under "Operation Resources"). The return on investment that is expected of CC is 30 percent per year.

### **Customers**

Although the principal customers will be those whose annual income is \$100,000 and above, the *upper middle class* will be CC's peripheral customers. These people also want the best for their children and will strive to achieve this. The common denominator among these customers

will be their concern for reliability and professionalism coupled with the latest teaching techniques.

### **Competition and Location**

The fact that the closest day-care center of any kind is 10 miles away is also a point in CC's favor. The other centers are mainly for the lower income groups of people. There are other, smaller, private centers but they are all mediocre, not very reputable, and are located on the far side of town. CC will be strategically located in a building that is already being reserved for 1995; the contract is currently being drawn up by our lawyers. This building has been examined by the local authorities and is deemed fit for a child-care service business.

According to a national survey, more than 57 percent of men and 85 percent of women have trouble finding child-care facilities. This need for more child-care facilities has been brought to the attention of state legislatures, many of which—along with the federal government — provide subsidies for low-income families in need of baby-sitting services. However, most parents realize that baby sitters cannot provide the structured learning activities necessary in early childhood development.

### **Strengths**

The primary strength will be its location and the fact that it will be one of the first preschools of such caliber in the city of South Orange. The child-care center will be nearer the parents' homes. Studies show that parents prefer to leave their children nearer their homes than their offices, and for this reason, centers do better in or near residential areas. Also, mothers need to feel that their kids are close by, should the occasion arise that the mothers need to see them.

The other fact is that there are no other competitors in this lucrative segment of the market. The preschool population (i.e., children between the ages of three and six) is rising, up by 10.2 percent in the past few years. Current projections call for the population of children under the age of six to increase by a further 8 percent.

### **Weaknesses**

Because this will be a new setup, it will take some time before the center will be able to rely on word-of-mouth as its dominant marketing tool. The company will have to use the Yellow Pages and other advertising devices to make CC known. However, the establishment will be able to use both LL's and ST's networks to reach many potential customers. Because LL will be the only one providing a service of this nature in this location, achieving recognition should not pose much of a problem. As the venture takes off and the company establishes its reputation, the *parents* of the enrolled kids will be the company's salespeople.

The advertising costs are expected to be high initially, because the company will have to depend on a good "media mix" to enhance the business and reach all the potential customers. Fortunately, this will last only until the reputation of CC is established; this is expected to take between six and eight months.

### **Technology and Backward Integration**

The most dominant feature here will be the latest teaching methods incorporated in the school curriculum. CC will have to update its facilities and mode of instruction by regularly sending its teachers for training. The director will also have to go abroad to find new ways of tapping the young minds at CC. The use of computers in the classroom will definitely be a must.

Farther down the line, CC will be a backward-integrated company—it will control some of its supply systems (e.g., the company that supplies all the stationary and elementary supplies necessary for schools). It may even go into the nutrition business and supply all meals made available at CC.

### **Operation Resource**

The facility that will house the business allows for 35 square feet per child indoors and 50 to 70 square feet per child outdoors. Because the teachers will probably never have all the children outside at once, it is required that LL designate the play space per child for only the children who will be outdoors at any given time. (See Appendix B for “child oriented environment.”) There will also be ample parking space. The minimum requirement for 30 children will be two toilets and basins for boys and the same for girls. To save on plumbing costs, the bathrooms will be located adjacent to existing adult-sized bathrooms.

Since all children will be assigned a cot, they can store their personal belongings on their cots to eliminate the need for a special storage area. Below is a list of some of the equipment CC will need:

1. Classroom stacking chairs
2. Round and rectangular tables
3. Cots, pillows, cot sheets, cot blankets
4. Storage cabinets (for toys and educational materials)
5. Tape dispensers
6. Set of state-approved swings
7. Slides
8. Sandboxes
9. Set of monkey bars
10. Stove, oven, other kitchen utensils
11. Refrigerators, freezers
12. Dishwashers, electric-mixer
13. Three-compartment sink

Office equipment also will be necessary. The installation of a computerized record-keeping system will be a necessary down-the-road move, too.

LL will provide snacks and main meals if they are requested by the parents. There will be an extra charge for these meals. (See Appendix C for a guide to child care food.) Though LL will have a few suppliers to buy from, she will run checks on the food to ensure that high standards of safety, hygiene, and balanced meals are maintained. There are many savings that can be obtained by making orders in large quantities. Because CC is an all-day child-care service, most parents will opt for the full-meal plan as opposed to the partial-meal plan. The additional cost per child will be between \$5 and \$10 per child per day.

## Costs

The initial capital LL will need to start this business is \$65,000, which will come from family savings. The service CC is offering will cost the customer between \$400 and \$500 per month. This payment will cover the cost of rental, equipment, advertising, utilities, professional services, owner salary, payroll, supplies, insurance, and other expenses. The projected gross sales will be between \$144,000 and \$180,000 (depending on whether the fee is \$400 or \$500 per child per month). The fee charged initially will be \$400, and after six months (after market penetration) the fee will be increased to \$500. This increase will be simultaneous with CC's new requirement for higher qualified teachers. The lead that CC will take in raising the standards of day-care centers in the region will justify the increase in the price.

The main costs that can deplete the finances will be the purchase of equipment. Therefore, LL will have to take great care in monitoring this element. To curb wastage, it is imperative that LL first decide on the teaching activities before ordering the needed tools. The other element that should be handled with care is the payroll—CC will need the best teachers and yet LL will have to watch the costs, too. If LL is able to keep the costs low and yet maintain high teaching standards, CC will definitely be assured of success. The self-motivated, confident, and intelligent children will be CC's best advertisers.

## Industry Analysis

### The Child-Care Industry Definition, Size, and Growth

The child-care industry includes all child-care services for children between the ages of three and six; this includes *all-day care* and *education*. For a start, CC will be appealing to those parents who are earning \$100,000 and more per year—the upper-class community of Kenny Hills.

The actual size of the entire child population of South Orange is 87,570. The eventual target market is about 21,892 children (1990 figures from the Bureau of the Census) who will be able to afford to attend CC DAY CARE CENTER (CC). However, the current target market will be just 2 percent (439 kids in the Kenny Hills area) of the ultimate target market. This market is expected to grow by at least 20 percent in the next two to three years due to the growth in the economy; this growth is also based on the assumption that people will become more affluent and that more parents will migrate to this city because of the better, more lucrative job opportunities in South Orange.

Currently, CC has no competitors in this industry (that is, in the Kenny Hills location). This residential area is ideal for a child-care center of this nature. It is also opportune because the government will be launching a nationwide "Educational Awareness Program" in 1995. Presently, there are no special (qualification) requirements for teachers in these centers. LL will begin to set some standards by ensuring that the teachers have a minimum qualification of an undergraduate degree in Early Childhood Education. There are many well-trained teachers who are currently employed by the public sector because there are no lucrative job offers in the private sector. CC will begin the trend and allow teachers more job opportunities while raising the standards of day-care centers. Later (i.e., January 1995), CC will raise the requirements further by insisting that lead teachers have a Master's degree in Early Childhood Education.

The forward trend in this industry is that day-care centers are expected to "mushroom" everywhere because the standards of education are rising, and parents want to give their children the competitive edge. There are no startling trends in technology, except for personal computers to maintain the database of students. The prevailing preschools, kindergartens, and

day-centers are synonymous and are just play schools for the kids to pass their time in safety while their parents are busy with their own careers. Some of the better centers do offer rudimentary teaching of the alphabet, but only one offers the basics of "READING, WRITING and 'RITHMATIC." This one is called "Marguerite" and is 10 miles away from CC's location.

The statistical arm of the government reports that all the government-sponsored centers are welfare-oriented, that is, they cater to the lower income bracket.

### **Cyclical Influences and Seasonality**

LL believes that CC's long-term performance will not rise and fall as a result of the external economic cycles. There will always be a need for a good school like CC, regardless of how good or how poor the economy is; during good times the parents can afford and want to give the best to their kids; during bad times both parents may need to work to supplement their income, but they invariably want the best for their children. Generally, this type of business should do well, especially since CC's target is the very rich. Also, CC should do very well since it has no competitors in this locality.

The distribution of business activity throughout the year will not affect CC because the fees (inclusive of registration and all other related fees) for school are paid even if there are holidays. In fact, most parents will pay their registration fees very early to ensure their children are guaranteed a place in the respective schools. All fees fall due on the first of every month.

### **Financial Operating Characteristics**

Through extensive research done by LL's partner, ST, we have arrived at the respective financial (Profit & Loss Account) estimates found in Appendix F.

### **The Working Paper for Setting Up CC**

#### *Assumptions and Notes*

The study is limited to the preschool population in the city only. There is no point in going beyond this because the transport problems are tremendous, not to mention other obstacles.

CC will begin by charging a flat fee of \$400 until the month of December 1995. This is because the teachers CC will be employing will require only a Bachelor's Degree in Early Childhood Education. Currently, the law does not require these teachers to possess any special qualifications. However, later CC will upgrade its teachers, and in 1996 CC will require lead teachers to have a Masters in Early Childhood Education. Hence, the fee will then be increased to \$500.

In 1996 the classes will also get bigger, and CC will change the teaching emphasis. The selling point will be the independent learning abilities of the children. The children will be taught to be self-motivated and excel in any environment—this will be the new marketing strategy.

#### *Sales*

Purchases relate to those expenses that can be directly charged to CC's clients, that is, the students. For example, it may cost \$7.50 per day to feed each child. The other costs will be called "overheads." Overhead costs are incurred in the running of the school but can only be "apportioned" to each pupil on a per-head basis. This is because the cost is usually "indirectly" incurred.



The formula is Cost per Student x Number of Children x Number of Days in the Month.

#### *Bank Charges*

A fixed figure for the charges will be assumed because of the service charges and interest rates levied by the bank on any overdrafts that CC may apply for. To be conservative, LL has provided for \$200 per month.

#### *Director's Salary*

LL will assume a director's salary of \$3,000 per month.

#### *Entertainment and Refreshments*

The budget for the monthly entertainment and refreshment expenditure will be \$1,000. This refers to the expense involved in going out to meet prospective students and their parents.

#### *Insurance*

The going rate for a general liability medical/accident policy for the children is \$10 per child.

Formula: Insurance Rate x Number of Children per Month.

#### *Medical Fees*

CC will provide some medical benefits for the staff—this covers only minor ailments. A rough estimate based on recent estimates of medical costs is \$150 per month.

#### *Newspapers and Periodicals*

CC will subscribe to daily newspapers and other relevant periodicals that enable the center to keep up with the latest developments in the industry and in the city. This will cost \$200 per month.

#### *Postage*

This is directly related to administration and is expected to increase with the number of children.

#### *Printing and Stationery*

Documents like letterheads and invoices have to be printed. Other office supplies are also included and the total cost is estimated to be \$5,000, which will be paid for at the start of the business.

#### *Rental*

This expense will form the largest single item of overhead. Sufficiently large premises must be rented to accommodate at least 500 kids—this allows for predetermined expansion. The contract is currently being examined by our lawyers, and cost of renting the premises is expected to be \$10,000 per month.

### *Salaries*

Salaries are forecast to be as follows:

- 1 personal assistant at \$2,000 per month
- 1 teacher (\$900 per month initially; later, in 1994, \$1,800)
- 1 administrative clerk
- 1 accounts clerk at \$800 per month

### *Secretarial and Accounting Fee*

The company will use outside professional company secretaries and auditors to manage these two aspect respectively. The present rate for these services is \$1,800 per year. It can be apportioned over the period of 12 months, thus making a monthly fee of \$150.

### *Telephone*

Telephone charges fluctuate from month to month. As there is no precedent for estimating such charges, CC would be wise to provide a "safe" amount to cover any contingencies that may arise. \$500 per month should be adequate.

### *Maintenance*

The center will use an outside professional maintenance company to ensure the premises are clean. The going rate is \$350 per month.

### *Utilities*

The utilities will increase with the enrollment. The increase is projected at 10 percent per month based on the figures provided by the city utilities department.

### *Advertisement*

Advertisements will be essential at the outset. Since the reputation of the establishment will not have been established, selection of a "media mix" is essential to the center. The medium that CC will select will be TV and radio. The local newspaper (rates of the major newspaper are seen in Appendix G) and the Yellow Pages will be the other advertising media. Hence, the initial cost of \$10,000.

### *Leasing*

The capital expenditure for this business will be mainly on the equipment required; this will, however, be leased at the rate of 8 percent over 3 years. Thus, these payments work out to be \$2,584 per month.

*Break-Even for July 1995:*

$$S = FC + VC$$

$$1000S = 38,609,000 = 405S$$

$$S = \$64,889$$

*Break-Even for June 1996:*

$$S = FC + VC$$

$$595S = 52,451,000$$

$$S = \$88,153$$

Therefore, it is projected that CC will need \$88,153 in sales to break even and anything more will be a profit. It can be seen that at the end of the first year CC should have \$137,888 (accumulated profit/loss).

## Market Analysis

### Market/Location

Recent studies have shown that more than 50 percent of children are in need of day care. The need is even greater among the wealthy. There is a dire need for excellent child-care facilities, and this has been brought to the attention of the federal government. Home baby-sitting services have been sprouting around the city, but most parents realize that these baby sitters cannot provide the structured learning activities necessary in early childhood development. Besides, the authorities have also exposed some of these services as "scams." There also have been some cases of child abuse brought to light in connection with these home businesses, which has caused many parents to be skeptical about such setups.

Consequently, a more structured and professionally run day-care center will be received very well, especially by the wealthy populace. One of the most significant trends is the increase of women in the work force. As such, CC will be a welcome relief to these career-conscious women. The actual size of the entire market is 87,570 (i.e., children between the ages of three and six). The company's target market is the 21,892 kids (1990 figures from the Bureau of the Census) whose parents will be able to afford to send their children to CC. However, the initial market will be just 2 percent (439 kids in the wealthy Kenny Hills area) of the ultimate target market. This market is expected to grow by at least 20 percent within the next three years for reasons mentioned in the Industry Analysis section.

Studies show that working parents prefer to leave their children nearer home than office. For this reason, CC will do better in this residential area. The rich in this neighborhood have at least one maid per household. These maids will be able to tend to the needs of the kids more readily if the children are located near their homes. The parents in this region tend to be very well educated and in one of the highest income brackets in the country. Generally, these people are young to middle-aged CEOs of huge corporations, and own homes worth more than \$500,000. Many of these residents have inherited much of their wealth from affluent ancestors.

The wealthy community of Kenny Hills is situated in the heart of South Orange and is very strategically located—it is within easy reach of all the modern conveniences: communication centers, transportation, commercial and banking centers, shopping centers, etc. Its central location makes Kenny Hills easily accessible, and yet this unique, mature dwelling of the rich is very private in its layout.

### **Economic Base**

The wealth of this community has already been determined and mentioned in the Company Analysis section. Hence, with an average family income of \$100,000 per year, CC's opportunities seem very bright. The houses here are valued at a minimum of \$500,000 and the percentage of ownership is 95 percent.

### **Important Factors for Site Selection**

#### *Accessibility*

The parents will have easy access to CC's site when dropping their children off. The center is situated on a corner location at the end of a two-lane street; it is a private road that does not have a heavy flow of traffic since it is in a private residential area. However, it is easily accessible, because there are "feeder" roads that turn off into the main street. Therefore, congestion is reduced and, because the speed of traffic is not more than 20 miles an hour, drivers will not have difficulty entering or leaving the site.

#### *Rent*

The working paper with the sales-and-profit projection for the first year of operation was discussed in the Industry Analysis. It was clearly shown how CC forecasted a gradual increase of sales (from \$12,000 to \$180,000) through the first year of operation. A Market Analysis of the Forecast Monthly Sales is shown in Appendix F.

The rental is seen (in Appendix F) to be as high as 80 percent of total sales in the beginning of the business, but by the end of the first 12 months it is projected to be just 5 percent of total sales. This is because the rental is quite high in this premium rental area. It is also observed that the enrollment will begin with just 12 kids and increase to 360 (30 times the initial number) by the end of the first year. As this flat rent is for two years, it will remain as a fixed cost of \$10,000 throughout the contractual period.

#### *Parking*

CC will provide easy, adequate parking and access for its customers. Since this building used to be a Finishing School for girls, it has a parking area that is relatively new and does not need resurfacing; this means no additional costs to CC.

#### *History of the Site*

This building used to be a "Finishing School" for wealthy girls, but the school has been relocated to smaller premises, and has been changed to a holiday camp because the needs of its customers have changed.

### **Advertising**

At the beginning CC will have to select a good "media mix" to enhance the business as the reputation of the center has not yet been established. The medium that CC will select in which to place its commercials will be TV and radio. The local premier daily (the rates of this major newspaper are displayed in Appendix G) and the Yellow Pages will be the other advertising media.

“... An effective media mix should have a synergistic effect on its components...” (*Yellow Pages and the Media Mix*, p.1). CC’s potential customers must see a newspaper ad, hear a radio spot, and see a TV commercial to reinforce the company’s message at the outset of business. The impact on these potential consumers will be far greater if CC uses the “media-mix” rather than just one of these media.

### *Television*

Television is the second largest advertising medium. It is the most dynamic of all forms of advertising because it combines visual activity and sound. Its broad appeal and large audience will definitely work for the center. However, CC has a relatively small audience, so the company will only advertise in the immediate area. TV is relatively expensive, so the spots will be selected very carefully to capture the right audience at prime time.

### *Radio*

This is the most universal of all media. The average American has three radios per household and most cars also are equipped with one. The air times will be selected carefully because the target audience is very important to the organization. The cost for radio advertising is relatively low and is usually within the reach of many small businesses. The major drawback of radio advertising is the absolute need for repetition.

### *Newspapers*

There are six main newspapers in the area and the Survey Research Department maintains that *The New York Times* is most widely read and circulated. This is the newspaper that is read by every household in the Kenny Hills area. The cost is relatively low and there is reader loyalty. However, because the life span is very short there will be a need for repeat ads. However, CC will be able to take advantage of the discounts being offered for “run-ons” (i.e., discounts for ads running 3 days in a row). The detailed advertising rates are listed in Appendix G.

Newspapers appeal to a diverse range of age groups and income levels; however, since this is the main publication distributed in the area it will assist CC to expand its market in later years. Newspapers, like the radio, can offer advertisers the ability to target their audiences with precision (*Yellow Pages and the Media Mix*, pp. 3, 4). The greatest advantage of this medium of advertising is flexibility; the amount of advertising is not limited, as in TV or radio, by the constraints of time. Advertisers are not limited to just one format—they can choose a full page, a two-page spread, or even buy space by the column-inch. On the other hand, newspapers have a very short life span and, like the radio, need a high degree of repetition to be effective.

### *The Yellow Pages*

The Yellow Pages is a fast-growing advertising medium. The advertising functions of this medium are different from the other media. It does not work by creating an awareness of or a demand for CC’s services; instead, it points willing customers in the direction of where this service can be had. The Yellow Pages is a “directional” medium. CC will use this medium to attract new customers who are willing to spend their money.

CC will be highly successful in the Yellow Pages because currently, it has no competitors in its niche of the market. The users of this directory are, generally, young to middle-aged, relatively well-educated, employed professionally or as managers, living in metropolitan areas, and

financially well off. The Yellow Pages are in great demand and are used both at home and at places of business.

Eventually, the most important marketing tool will be by word-of-mouth. CC will inevitably concentrate on this tool. As the company's reputation grows, CC will move away from all other modes of advertising and the advertising cost will be lowered considerably. In this line of business when one is dealing with parents (who are almost always concerned with the reliability and reputation of the school and its staff), all other marketing devices will not work. Eventually, most, if not all, of the children enrolled at CC will be as a result of positive referrals. The parents of these kids will be CC's true salespeople.

## **Management Team**

### **Employee Qualifications**

Currently, the law requires only minimum qualifications for the staff in day-care centers. However, when CC first goes into business there will be a general requirement demanded of all the personnel. The staff will be screened carefully to ensure that CC secures the best "help" to ensure that the center will be able to offer the best service in the area.

Before hiring, the two partners will write down the following: (1) a job description, including the objectives of the job, the work performed, responsibilities, working conditions, and relationships to other jobs; and (2) the job specifications, that is, a description of the qualifications required to fill the particular job, including experience, education, special skills, and any physical requirements. See Appendix A for a sample to be adapted for CC's use.

Because CC will be taking care of children, the interview of the potential employee will be conducted in a manner that will enable the interviewer to learn as much as possible about the interviewee. CC will employ only the "trouble-free" applicants.

### **Duties**

#### *The Director*

As the owner/director, LL's job will include almost everything initially. The director will provide the necessary hiring, training, supervising, planning the curriculum and scheduling, budgeting, making purchases, promoting the business, setting up the books, handling enrollments, solving problems, etc. Fortunately, the other partner, Mr. Stuart Lako, will help in this area, too. They will employ professional help in many of the above areas to ensure that the company starts off on its best foot.

There will be a personal assistant to help with the running of the business. This person will have a degree in education or early childhood development, and will also have good communication skills, able to relate equally well to both parents and children. There are many retired teachers with both organizational ability and expertise in dealing with young children. These retirees are currently unable to find any useful employment. It will be relatively easy to get the "cream of the crop" now.

### *Staff*

CC will start with one college-trained teacher for every 15 children, as mentioned in the Company Analysis. CC will set the standards for quality. To ensure that this center will be the leader in this industry, it will maintain very high standards as it becomes more established—always ahead, always getting better. The center will begin with just college-trained teachers, and later as mentioned in the Industry Analysis, will hire Graduate lead teachers and undergraduate teachers' aides.

The monthly salary was taken care of in the Industry Analysis. As the profits increase and the requirements change, so will the salaries (from \$900 to \$1,800). Children are fragile people, so the people handling them will have to be loving, mature, and healthy, with positive attitudes about life, love, sex, and interpersonal relations. It must be noted that kids are very intelligent and extremely impressionable and will pick up attitudes and behaviors of the adults around them with amazing accuracy. The aides must also be instinctively adept at disciplining children fairly without traumatizing them. Finally, they must have the skills to implement play and instructional activity for groups of disorganized, rambunctious, strong-willed youngsters.

### *Other Employees*

The company will hire professional company secretaries and auditors to manage these two aspects of the business. The present rate is a monthly fee of \$150. There will also be an accounts clerk and an administrative staff member, who will each be paid \$400 per month. The center will be maintained by professional maintenance personnel to ensure the premises are clean. The going rate is \$350 per month.

Recruiting employees for this business will be limited by geography. There is no competition currently, so there will not be much competition to contend with in regards to "pinching" good staff members. However, as the company grows, CC will ensure that it shares its profits with the staff to ensure that the better members will remain with the organization. We will pay them what the market requires—with significant increases once they have proved themselves, because "two motivated, well-paid, capable employees will serve one better than three mediocre, lackadaisical, underpaid ones . . ." Weak employees hurt the morale of the others, so they will have to go.

### **Good Personnel Policies**

CC will go out and recruit staff at universities and schools, at established government and private employment agencies, through referrals from friends and other business firms. Advertising in the local daily publications can also be effective, but only if advertising expense is reasonable or the position requires special training.

References will have to be checked carefully, and extended interviews will be conducted to *weed out the undesirable*. Initially, salaries will reflect market rates or better, if this can be justified. There will be an annual review of each employee's progress and productivity. These reviews will be discussed with the employees so that they will know where they stand with the company.

Fringe benefits, health and hospital insurance, profit-sharing plans, pensions, and paid vacations will all be part of a complete personnel program. All successful business owners recognize that fair wages, attractive fringe benefits, desirable working conditions, and concern for employees are important in building a dedicated, efficient staff. Such staff will advance CC's goals and, by word-of-mouth, create an image of this company as a good place to work.

### **Build Employee Morale**

CC will accept and use the ideas of the company's employees, and give them full credit if the idea is successful. This will definitely encourage employee contributions and cooperation and create a true spirit of aggressiveness and accomplishment. Employee morale and team spirit are important to the success of this company. Regulations with regards to salaries and minimum work hours will be strictly adhered to.

### **Hidden Costs of Employment**

CC figures that 12 percent above total salaries will cover payroll taxes, worker's insurance, and paid vacation. There is also a portion that has to be paid into the employee retirement fund to take care of their retirement benefits and this amount is around 8 percent at present.

The failure or degree of success will often be related to the quality of employees in the organization. CC will develop professional and psychological techniques to use in the interviews to ferret out hard, smart workers. (*AEA Business Manual #X1058, Business Startup Guide.*)

## **Strategic Planning**

### **Goals of the Company**

CC Day Care Center will make its debut in the Kenny Hills area as the first excellent day-care center in South Orange. As it becomes a more established organization throughout the city, it will branch out into other similar locations. After the third year of operation, CC should have an enrollment of at least 1,080 children (ie., about three times the enrollment at the end of the first year).

After the first three years of operation, CC will be well known for its advanced teaching methods and will expand into other markets. This will be a good time to venture to capture the upper-middle and the middle class. CC will be in a better position to command a bigger share of this market.

In its fourth year of operation, CC will make its facilities available to toddlers from families who are in the lower income bracket. This will be a nonprofit organization and will be run to aid less fortunate children. This will be CC's way of making its contribution to society. This center will be run in conjunction with some of the government programs available, making use of teachers provided by the state but retrained by CC. This project will be done as a separate undertaking to help society and also to gain some goodwill for CC. The center will want to move away from the public image that CC is an organization only for the rich; this, then, will be a good time for CC to move into the bigger market—the entire northern portion of New Jersey.

### **Operations**

#### *Admissions Policies and Procedures*

In the initial step of the interview, the parent and the child will be given a guided tour of CC's child-care facility. This gives the director an opportunity to "sell" the advantages of structured play and instruction with other children over simple baby sitting. Simultaneously, the exposure to the equipment, play areas, and other children will excite the child.



Almost all working parents know the need for child care, so CC's sell will be a soft one, allowing the cleanliness, friendliness, and efficiency of the facility to be observed. Next the director will determine the days and the hours that parents will need the child-care services. Monday through Friday will be best, because most parents prefer that their children have the weekends off. The rate schedule will be presented, along with a brochure describing the goals, curriculum, and services of this excellent center.

As part of the contract, the parents pay for the first term (the first three months) in advance, and then the child is scheduled to begin. CC will accept all children between the ages of three and six because this is common practice. The children will then be evaluated and placed in their respective classes; they will be allowed to progress at their own pace.

The children will not be placed in the conventional "A," "B," and "C" classes, as has been the prevalent practice in the past. This categorizing only makes the slower child feel bad and retards rather than advances his or her progress; it reinforces his or her slow capabilities. This labeling has proved to be detrimental to the well-being of such a child. Instead, children at CC will be evaluated according to their skills in reading, writing, arithmetic, etc., and when these classes are scheduled children will be regrouped according to their levels. The older children in the classes will seem to be teaching the younger ones. Children are always learning from each other, and they learn faster this way, too. Of course, this will all be done under the guidance of the teacher.

An enrollment card will be filled out by the parent, stating the child's name, address, names of parents or guardians and their home and office phone numbers, the days and hours of attendance, the child's medical insurer and policy number, and any special conditions regarding the child. A short statement of the limited liabilities and responsibilities of the facility will be printed on the card, read by the parent or guardian, and signed. This will be done in accordance with applicable law.

### *Food Service*

The children at CC will be provided with complete menus for well-balanced meals throughout the week. This will be made possible by engaging one of the many food specialist services in the city. The food costs will be budgeted carefully, keeping a tight range of costs for the feeding of each child. It will cost about \$5 per day per child: this will include breakfast, lunch, and a light snack. The light snack will be around 3 p.m., because most parents prefer to have dinner with their children between 7:30 p.m. and 8:30 p.m.

### *Suggested Daily Program*

Schedules will be set up with the help of the directors and in accordance with the relative curriculum. See Appendix E for the guide from which CC will adapt its curriculum. The following schedule shows the kinds of activities that will be organized for the facility:

* 7:00 am to 8:00 am	Arrivals
* 8:00 to 8:30	Breakfast
* 8:30 to 9:00	Show-and-Tell Time
9:00 to 9:30	Individual Projects
9:30 to 10:00	Cooperative Learning
10:00 to 10:30	Snack Time
10:30 to 11:00	Free Play

11:00 to 11:30	Learning Skills
11:30 to 12:00 noon	Fun with Math
12:00 noon to 1:00 pm	Group Singing
1:00 pm to 2:30	Rest Time
2:30 to 3:00	Snack Time
3:00 to 4:00	Learning Skills
4:00 to 5:00	Story Time and pickup at school

The above schedule serves only as a guide; good child-care programs are not as regimented; indeed, they are flexible enough to vary with the day-to-day temperaments of the children. The key here is flexibility—this is essential when handling children.

#### *Transportation*

Delivery and pickup of these children will inevitably be done by their parents or their chauffeurs, as they all come from very wealthy households. Therefore, there will not be any extra costs incurred by CC to purchase vans or small school buses to transport the children to and from home.

#### *Medical Problems*

If an accident should occur while the child is at the center and immediate treatment is needed, the child will be taken to the emergency room of the nearest hospital, with his medical insurance information and parents' names and numbers. The hospital will inform the parents and obtain a verbal medical release.

All staff members will be required to have first-aid training, with at least one person CPR-certified. A small isolation room for the sick will be made available on the premises. The teachers will be required to give their respective students a quick checkover each morning. Any potentially contagious disease is a danger to the health of other children and employees, hence, care will have to be exercised in this area.

#### *Regulations*

CC will meet all regulations affecting the child-care industry. CC will be the leader in this industry and maintain very high standards in the operation of the facility.

#### *Monthly Operating Statement*

This is examined in great detail in the Industry Analysis (also refer to Appendix F). It is clear that the average monthly revenue will be \$92,250 and the average monthly expenses will be \$43,401, therefore making the net profit before tax \$48,848. The gross profit will be \$54,892. The net profit as a percentage of gross sales in the first year will be 52.95 percent.

#### *Failure Factors*

CC will take special care to avoid making the same mistakes that other entrepreneurs have made in the past. Constant market research or seeking help from a consultant will help resolve some of the major problems. Most small-business surveys show that the primary reasons for failure lie in the following areas:

1. Inefficient control over costs and quality of service
2. Bad stock control
3. Underpricing of service
4. Bad customer relations
5. Failure to promote and maintain a favorable public image
6. Bad relations with suppliers
7. Inability to manage efficiently
8. Failure to keep pace with management system
9. Illness of key personnel
10. Reluctance to seek professional assistance
11. Failure to minimize taxation through tax planning
12. Inadequate insurance
13. Loss of impetus in sales
14. Bad personnel relations
15. Loss of key personnel
16. Lack of staff training
17. Lack of knowledge of the service
18. Inability to cope adequately with competition
19. Competition disregarded due to complacency
20. Failure to anticipate relevant market trends
21. Loose control of liquid assets
22. Insufficient working capital
23. Growth without adequate capitalization
24. Bad budgeting
25. Inadequate financial records
26. Extending too much credit
27. Bad credit control
28. Bad control over receivables
29. Overborrowing or using too much credit
30. Loss of control through creditor's demands

### **Market Opportunities to Exploit**

The upper class in Kenny Hills is the market segment that CC will serve as described in the Company Analysis, Industry Analysis, and the Market Analysis sections. Later, in the third year of operation, the company will venture to other geographic areas to widen its market. Here the center will serve different types of customers who will offer new opportunities. As mentioned earlier, these will be middle-class households.

### **Business Strategies**

#### *Market Strategies*

The strategies that CC will create initially will be the small student-to-teacher ratio to satisfy the needs of its customers. However, later on, as mentioned in the earlier section, the center will move away from this strategy and focus on the teaching techniques and technology available at the center. The high standards and highly-qualified teaching staff will also be another marketing strategy used (see Appendix H).

The "media mix," as mentioned in the Market Analysis, will also be a part of the marketing strategy that CC will use to make the company a success. Television, radio, newspapers, and the Yellow Pages will be effectively used to capture the right audience and will be to CC's advantage. The most effective marketing tool, word-of-mouth, will only be used when the company has established itself in the industry. At that stage in time, all the other marketing strategies will not be as effective, because most of the enrollment will then be a direct result of positive referrals. The only exception will be new residents of the city.

### **Financial Analysis**

#### **Licenses and Taxes**

##### *Licenses*

The city requires that the owners of CC obtain a license to show compliance with local regulations. The owners will need to pay a fee to operate the business in the city. There is no additional fee to be paid. Obtaining the license is a simple process, as there are few laws that restrict or hinder the application procedure. CC has had the premises checked by the local authorities for safety and all of the company documentation has already been taken care of by CC's lawyers.

##### *Health-Department Permit*

Since CC will not be preparing any food, it will not be necessary to obtain a health-department permit. The company will be purchasing its food supplies from a reputable food specialist (as mentioned in the Company Analysis).

##### *Fire-Department Permit*

The city's fire department requires the business to have its premises inspected for safety features. However, it does not require businesses to secure a permit. CC has already been given a "clean bill of health" by the fire department and will be ready to begin operation in July 1995.

### *Company Taxes*

CC will have to pay a 45 percent tax on the profits. The company will be required to estimate its tax liability each year and pay it in installments if it so chooses.

At the end of each year, the organization will be required to file an income tax return for the federal and state governments and compute the tax liability on the profits earned for the year. The tax liability of the business will be calculated on a calendar year basis, and the tax return of CC must be filed with the respective department no later than April 15 of each year.

### **Startup**

The startup expenses and the operating capital of CC were discussed in the Company and Industry Analysis sections.

### **The Business Plan**

The process of creating this business plan has forced the directors of the company to take a realistic, objective, unemotional, more-or-less detached look at the proposed business in its entirety.

This finished business plan will become an operating tool that will help the owners to manage and work toward its success. If financing will ever be needed, this plan will become the basis for CC's loan proposal.

### **Financial Documentation**

CC's key financial document is the profit-and-loss projection for the first five years (refer to Appendix F). This is the financial summary of projected income and expenses. It is clear that with the numerous initial expenses, CC will have to take losses in the first six months of operation. However, because businesses are allowed to accumulate their losses and carry forward for the first three years of operation, it is only in the month of April 1994 that profits are noted. This document shows the profit and loss at the end of each period, but it also shows the amount of money that will be on hand to operate the business. Appendix F also shows all the total expenses as a percentage of the total sales.

### **Financing**

CC will need some financing in the third year of operation, when it plans to expand its market share. The company will get investors from among the directors' acquaintances to be able to arrange a better deal. CC's directors will assess the proposed value of the business in order to determine how much capital will be needed over specific periods of time.

The best source will be the directors themselves, of course. This is the easiest and quickest form of capital, and there is no interest to be paid. (This personal equity is reflected in the Balance Sheet in the amount of \$65,000.) In addition, the company will not have to surrender any equity in the child-care center to "outsiders." The profits will also be carefully reinvested in the business.

The next best choice will be friends and relatives of the owners. However, any money raised through this avenue will be treated as a loan. In fact, CC's lawyers will be required to draw up loan papers for each of the contributors. This legality is sought because it will prevent lenders

from gaining equity in the business (unless the directors default on the loan) and it will also protect the investor's loan.

### **Borrowing from Banks**

The most visible sources of ready financing are banks; however, they are notoriously conservative. CC will try at all costs to avoid this avenue for various reasons.

### **Selling Equity**

Dividing the ownership of CC among investors is not in the plan of the organization. It is just part of a contingency plan.

Selling Equity would mean that the owners would have to give up some control as well as a portion of the business. The profits would have to be shared with the new partners, depending on the setup of the establishment. The skills of good negotiators would be necessary and the services of a lawyer would be highly essential to the overall "health" of the company. It is usual for the owners to retain a 50 percent equity in the company. While the 50-50 rule is fairly common, everything is negotiable in a deal of this nature.

## **Appendixes**

### **Author's Note:**

*List all supporting documentation in the appendix section as noted and referenced throughout your business plan.*

*Remember, this information should be clearly and neatly presented so the reader of your business plan can easily reference and understand the data being provided.*