

Fourteen Steps to More Effective Cash Flow Management

by Roger Neugebauer with Exchange Panel of 300

As anyone who has been in the early childhood business for more than a few days knows, managing cash flow is an incredibly important skill for a center director. Even a center with an annual budget showing a healthy surplus may experience brief periods where funds in the checkbook are insufficient to pay all the bills.

To discover how successful directors manage cash flow in tight times, we surveyed members of the *Exchange Panel of 300*. Summarized below are their tips for planning ahead, suggestions on what to do in the midst of a cash flow crisis, and tempting solutions to avoid.

Prepare today

The most important steps you can take to deal with a cash flow crisis are those you take before the crisis occurs:

■ **Always budget conservatively.** A common mistake of rookie directors is to develop an annual budget based on full enrollment. Even the very best centers find it impossible to maintain enrollment at 100% as there are inevitable lags between one family leaving and another enrolling. More often centers operate at between 80% and 85% capacity. To avoid creating unnecessary cash flow surprises, make sure that you budget income with

considerable conservatism and expenses with considerable pessimism. Any surprises you experience in this mode should be pleasant ones.

■ **Build credibility with your creditors.**

One of the simplest, yet most effective cash flow management steps you can take is to pay your bills on time. If you build high credibility with your creditors when times are good, you are more likely to win their support when times are not so good.

■ **Establish a line of credit.** If you are in the midst of a financial crisis, no bank is likely to rush to your rescue. Remember that a bank's practice is loaning money to people who don't need it. So the best time to arrange for a line of credit you may need to get you through a difficult patch is when your center is doing well. Go to the bank when your center's financials are strong and arrange a line of credit sufficient to carry you through two or three difficult months. Then pretend you don't have it, so you don't get complacent in your money management.

■ **Set up a rainy day fund.** An alternative, or maybe a supplement, to a line of credit is a reserve fund that you establish when the center has a surplus. When you have money in the bank, it's awfully

tempting to go out and buy that new playground structure or to finally repaint the center. However, before you make these decisions you should seriously consider salting some of these funds away into a fund to provide some cushion during hard times.

■ **Develop the habit of analyzing cash flow.** Every director should develop the discipline of analyzing cash flow year round, not just when times are tight. For at least 12 months ahead, project when income and expenses will occur. This will enable you to foresee times when expenses will exceed income, and to start taking action in advance. Some directors do these projections on a monthly basis, whereas others do them week by week (which is most important during periods of crisis). Again, as with budgeting, you should be pretty conservative in making these projections. For example, don't assume that all parents will pay their fees on time, and never assume a public agency will process invoices on time.

Work hard to survive

Once a cash flow crisis has set in, it's time to change tactics:

■ **Maintain confidence in your program.** Even though you as director may be under tremendous stress, you can't afford

to spread your anxiety to teachers and parents. If parents think that your program is in trouble, they may start looking for other options, which will only exacerbate your problems. Likewise, if staff are worried about the survival of the center, they too may start jumping ship, or at least lose some of their motivation.

This doesn't mean, of course, that you should pretend that everything is rosy. When times are tight, staff and parents will inevitably pick up on the signs of stress. If they sense that times are a bit tight and you are acting like nothing is wrong, rumors may start to build out of proportion to reality. Rather, you should let parents and staff know that the center is experiencing a "cash flow crisis" while expressing confidence that this is only a temporary condition. Be honest, but confident.

■ **Manage cash flowing in.** The bottom line is that there are really only two sure-fire ways to survive a cash flow crisis — speeding up the flow of cash coming in, and slowing down the flow of cash going out. In the first instance, the most important way to speed the inflow of cash is to be vigilant about fee collections — making sure that invoices are processed on a timely basis, rewarding parents for paying fees early, penalizing parents for paying fees late (as long as you don't ignore usury laws, of course), and paying close attention to parents who are starting to get behind in their fees. Other less likely solutions are to move up in time scheduled fundraisers or special money making projects.

■ **Manage cash flowing out.** This is where your good bill paying behavior will pay off. If you have established a dependable payment history with vendors, they will be likely to work with you and stretch their payment terms a few weeks when you are in trouble. However, vendors don't like surprises. You will get more cooperation from a vendor you owe money if you come to them before the

payment is due and ask for some extra time, than if you wait for them to call you after the payment is overdue.

In addition, you should look for major purchases you can defer in order to improve cash flow. For example, if you are planning to purchase a new computer for your office in February, but through doing careful cash flow analysis see that the month of March is going to be a tight one, put off this purchase until May, thereby lessening the hill you need to climb in March.

■ **Carefully monitor staff schedules.** Since anywhere from 70% to 80% of a center's expenditures go for staff salaries, attention to this line item is paramount. You are trying to balance three factors — you want to maintain the quality of your services, you want to avoid over expenditures on staffing, and you want to maintain staff morale. If you cut staff hours across the board, you will impact quality. If you have staff coming and going on an hourly basis based on daily fluctuations in attendance, you may damage staff morale. Yet, if you do nothing, you may not be able to pay your bills.

Your best bet is to explain the challenge to staff and work with them to develop a lean schedule as possible based on attendance patterns. If you end up having a few staff members who are paying a higher price for this — working split shifts or changing their hours from week to week — make sure you show your recognition of their sacrifices and try to assure them that this is a short term situation.

■ **Focus on solutions with a future.** During major cash flow crises, there is a temptation to reach out for quick one-shot solutions — organizing a fundraising, seeking grants, seeking donations from current and former parents. These solutions will demand a lot of energy and time to pull off, with no guarantee of success. Rather than investing your resources into such one-shot solutions, you should con-

sider new ventures that can fit into the long range plans of the organization. For example, it may be a better use of everyone's time to launch a new after-school component than to organize a pancake breakfast; to create a new one-Friday-a-month "parents' night out" service, than to hold a center-wide yard sale.

Avoid common mistakes

Panel of 300 members shared some cash flow management mistakes as well. Here are a few paths not to follow:

■ **Don't delay taking action.** When an organization starts sliding into a rough patch, it's always tempting to deny what is happening and hope the crisis will pass. However, the longer a director delays in taking action, the steeper the hill will be to climb. If a director foresees a cash flow shortage looming a month away, this provides four weeks of income and expenses that can be manipulated to ease the crisis. If you wait until the crisis is upon you, your options are significantly reduced.

■ **Don't defer payroll.** Given that staff salaries constitute the bulk of your expenditures, it's tempting to take the easy way out when funds are short and to delay a payroll for a week or two. However, the risks to destroying staff morale are too great. Having a payroll delayed sends a chilling message to staff that should be avoided at all costs. Delay payroll only as a last resort.

■ **Don't defer payroll taxes.** An even more dangerous temptation is to get into the habit of delaying the deposit of payroll taxes. Too many centers have ended up paying severe tax penalties when they got caught playing this game.

■ **Don't borrow from your future.** Another temptation to avoid is to dip into funds that are designated for future activities. For example, if you collect advances from families for your summer camp, it may be tempting to use these advances to cover a cash flow gap. The problem is

that come summer camp you won't have these funds to cover your expenses. If you do find it necessary to dip into funds for future events, make sure that your cash flow recovery plan includes provisions for replenishing these funds.

■ **Don't delude yourself.** Part of your analysis of a cash flow crisis is to decide if it truly is a "temporary cash flow crisis" or something more serious. When a center seems to go from one cash flow crisis to another, this may be an indication that there is a fundamental problem with the financial structure of the center. Possibly your fee is simply set too low, maybe your enrollment is steadily declining, maybe your expenses are out of control. So while you are struggling through a difficult cash flow period, take a step back and analyze whether this is a temporary challenge or a more basic financial issue.

Panel of 300 Contributors

The following *Panel of 300* members contributed to this article:

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Child Care Fees in North America

The *Exchange* Insta-Poll for April 7 - 13, asked for feedback on the following question:

"What is the average weekly fee for full day services for preschool children and school-age fees for 6-year-olds in your community?"

As can be seen, the average fees vary as expected by age group. For example, fees for four year olds are typically 20% lower than the fees for infants.

Fees also vary dramatically by region. For example, fees for four year olds are one-third higher in New England than in the Southwest.

	6 months	2 years	4 years	6 years
Canada	\$119	\$106	\$ 97	\$ 78
New England	\$206	\$195	\$168	\$126
The Mid-Atlantic	\$191	\$171	\$152	\$127
The Midwest	\$169	\$166	\$136	\$116
The South	\$139	\$125	\$115	\$ 91
The Southwest	\$138	\$120	\$110	\$ 88
The West	\$189	\$169	\$151	\$118